CENTRAL BANK OF SRI LANKA

05 November 2026 **GUIDELINE** No. 02 of 2026

GUIDELINES ON EARLY SETTLEMENT OF TERM LOANS AND ASSOCIATED CHARGES

1. Legal and Regulatory Authority

These guidelines are issued by the Central Bank of Sri Lanka under Section 2.2 of the Financial Consumer Protection Regulation No.1 of 2023 and shall apply to all Licensed Banks (LBs) and Licensed Finance Companies (LFCs) (hereinafter referred to as "Financial Service Provider-FSP") offering term loans.

2. Objectives

The objective of these guidelines is to ensure that early settlement charges imposed by FSPs are fair, transparent, proportionate, and reflective of actual economic costs, while preserving the financial benefit of early repayment to the borrower.

3. Scope

These guidelines shall apply to all loans and advances with a fixed tenor. Leasing, hire purchase and other credit facilities with special features are excluded from these guidelines.

4. Key Principle

Early settlement of a loan shall not result in a financial disadvantage to the borrower compared to continuing the loan to maturity.

5. Institutional Policy Requirement

5.1. All FSPs shall establish and maintain a Board-approved written policy governing early settlement of term loans.

5.2. The policy shall include:

5.2.1. Methodology for calculating settlement amounts;

5.2.2. Basis for determining early settlement charges;

5.2.3. Approval processes and governance structure; and

5.2.4. Procedures for customer communication and disclosures.

6. Permissible Charging Practices

6.1. FSPs may impose an early settlement fee, as a percentage based on the total capital outstanding at the point of early settlement of all loans and advances with a fixed tenor.

6.2. The total settlement amount shall comprise:

6.2.1. Outstanding principal;

6.2.2. Accrued interest up to settlement date; and

6.2.3. Permissible early settlement fee.

6.3. The fee shall be designed for each quartile of the total loan tenor with the applicable rate decreasing as the remaining time to maturity shortens.

6.4. Loans and advances subject to floating interest rates shall, upon early settlement, be reassessed based on the prevailing outstanding principal balance and the remaining tenor at the date of settlement, subject to compliance with the fairness condition set out in Section 7.

6.5. All other forms of early settlement charges currently applied by FSPs under different terminologies such as consideration fees, termination fees, or similar charges, should be discontinued.

7. Maximum Allowable Charge

7.1. The percentage of total capital outstanding as the Early Settlement Fee shall be determined such that it satisfies the following condition.

Early Settlement Fee < Unaccrued (Remaining) Interest

7.2. Under no circumstances shall the charges exceed the economic loss incurred by the FSP.

8. Prohibited Practices

8.1. FSPs shall not:

8.1.1. Charge total future interest upon early settlement;

8.1.2. Charge both an early settlement fee and total future interest concurrently; and

8.1.3. Impose charges that result in:

a) Early settlement being more costly than continuing with the loan, or

b) A penalty effect on borrowers.

8.2. Impose excessive or disproportionate charges, including charges that do not reflect actual costs.

9. Fairness Test (Mandatory Compliance Check)

9.1. FSPs shall ensure that for every early settlement:

Settlement Amount < Total Remaining Installments

Total remaining installments of the loan shall be calculated as the sum of the total capital outstanding and the total interest payable at a given point in time. Settlement amount shall be calculated as the sum of the total capital outstanding and the applicable settlement fee charged at the time of settlement.

9.2. Where this condition is not met, FSPs shall adjust or waive the fee to ensure compliance.

10. Fee Structure Requirements

10.1. Early settlement fees shall:

10.1.1. Be proportionate to the outstanding principal; and

10.1.2. Reflect the declining exposure over the loan tenure.

10.2. Fee structures shall not:

10.2.1. Remain static or increase over time without justification; and

10.2.2. Create disproportionate outcomes across similar loan products.

11. Disclosure Requirements

11.1. FSPs shall clearly disclose early settlement terms within existing documents, including:

11.1.1. Loan agreements;

11.1.2. Offer letters;

11.1.3. Terms and conditions; and

11.1.4. Tariff guides.

11.2. Disclosures shall include:

11.2.1. Whether an early settlement fee applies;

11.2.2. Basis of calculation; and

11.2.3. Applicable limits or caps.

11.3. Upon request, FSPs shall provide a detailed breakdown of the settlement amount, including:

11.3.1. Outstanding principal;

11.3.2. Accrued interest; and

11.3.3. Early settlement fee and its calculation.

12. Implementation Timeline

Milestone	Requirement	Deadline
Board Approval	Approval of internal policy and implementation plan	14.01.2027
System / Process Readiness	Completion of systems, controls, and staff training	12.03.2027

13. Supervisory Review and Enforcement

Financial Consumer Relations Department may conduct off-site reviews, on-site examinations, thematic reviews, data analysis, meetings with institutions, or other supervisory assessments to verify compliance. Failure to comply with this guideline may result in regulatory actions available under the applicable law.

14. Effective Date and Review

This guideline shall come into effect on 15.03.2027. Financial Consumer Relations Department may review, amend, replace, suspend, or withdraw this guideline from time to time, having regard to market developments, supervisory findings, legal changes, international standards, and financial stability considerations.

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