

Explanatory Note No. 03 of 2020 on Interest Accrual during the Moratorium Period

Department of Supervision of
Non-bank Financial Institutions
Central Bank of Sri Lanka

04th May 2020

**Interpretations for circular No. 04 of 2020 on Relief Measures to Assist Covid-19 affected Businesses and Individuals
and
Circular No.5 of 2020 on Rupees 50 billion, Six-month Re-financing Facility to Support Covid-19 hit Businesses including Self-employment and Individuals**

The following explanations are given with regard to interest accrual during the moratorium period for Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs).

1. Interest shall continue to be accrued during the moratorium period on a **concessionary rate** and such accrued interest shall be converted into a **new interest free term loan**, which shall be **recovered from the borrower**.

E.g., for calculation of Monthly Interest Charge:

*Interest charge per month of April 2020 = Outstanding loan amount at the commencement of the moratorium period (Beginning of April 2020) * (concessionary rate/12).*

2. LFCs and SLCs shall recover the interest free loan from the borrower using the two options given below with the consent of the eligible borrower.

Option 1: LFCs/SLCs shall recover the interest free term loan in **equated monthly installments** after the end of the moratorium period and the repayment period shall be two years or remaining maturity period of the credit facility whichever is **lower**. The concessionary rate for the Option 1 shall be one third (1/3) of the contractual rate subject to a **cap of 6.5%**.

Option 2: LFCs/SLCs shall recover the interest free term loan after the end of the contractual period (extended contractual period after considering the moratorium) in installments not exceeding the monthly instalment of the original contract. The concessionary rate that can be charged to option 2 shall be one third (1/3) of the contractual rate **plus 1%**, subject to a **cap of 7.5%**.

3. The **consent of the borrower** shall be obtained for the option selected, after duly explaining the different implications of the options considered including total interest cost to be paid and time value of money.

Example1, Option 1:

Loan Grant Date	01-April 2019
Loan Amount	Rs. 2,000,000
Loan Period (Original)	24 months
Interest Rate	16% p.a.
Monthly Instalment (Derived)	Rs. 97,926
Remaining maturity as at end March 2020 (Original remaining maturity+ Moratorium Period)	18 months
Remaining maturity after the moratorium period as at end September 2020	12 months

- (a) Moratorium will be applicable for the installments from April 2020 to September 2020. Customer will commence the repayment from October 2020 at a monthly installment of Rs. 97,926 until end September 2021.
- (b) The interest accrual during the moratorium period will be, Rs. 29,104 (1/3 of 16% per month for 6 months) shall be converted into an interest free term loan for a period 12 months. The value shall be recovered from customers in equal monthly installments of 12 months (i.e. the lower of 24 months or remaining maturity after the end of moratorium period), at Rs. 2,425 per month.

Example 2, Option 01

Loan Grant Date	01-April 2019
Loan Amount	Rs. 2,000,000
Loan Period (Original)	60 months
Interest Rate	24% p.a.
Monthly Instalment (Derived)	Rs. 57,536
Remaining maturity as at end March 2020 (Original remaining maturity+ Moratorium Period)	54 months
Remaining maturity after the moratorium period as at end September 2020	48 months

- (a) Moratorium will be applicable for the installments from April 2020 to September 2020. Customer will commence the repayment from October 2020 at a monthly installment of Rs. 57,536 until end September 2024.
- (b) The interest accrual during the moratorium period, Rs. 58,139 (cap rate of 6.5% for 6 months) shall be converted into an interest free term loan for a period 24 months. The value shall be recovered from customers in equal monthly installments of 24 months

(lower of 24 months or remaining maturity after the end of moratorium period), at Rs. 2,422 per month.

Example 3, Option 02

Loan Grant Date	01-April 2019
Loan Amount	Rs. 2,000,000
Loan Period (Original)	60 months
Interest Rate	24% p.a.
Monthly Instalment (Derived)	Rs. 57,536
Remaining maturity as at end March 2020 (Original remaining maturity+ Moratorium Period)	54 months
Remaining maturity after the moratorium period as at end September 2020	48 months

- (a) Moratorium will be applicable for the installments from April 2020 to September 2020. Customer will commence the repayment from October 2020 at a monthly installment of Rs. 57,536 until end September 2024.
- (b) The interest accrual during the moratorium period, Rs. 67,223 (cap rate of 7.5% for 6 months) shall be converted into an interest free term loan and recovered after September 2024. The value shall be recovered from customer in two monthly installments not exceeding the original instalment of Rs. 57,536.

Example 01				
Original loan amount		2,000,000		
Interest Rate(IRR)		16%		
Expiry Date		Mar-21		
Installment		97,926.22		
Period of the loan		24 months		
Total Interest accrued during moratorium Period				
		29,103.15		
Remaining maturity at the end of the moratorium				
		12 months		
Equated installment of the new term loan				
		2,425.26		
	Capital O/S	Interest	Installment	Bal C/F
Apr-19	2,000,000	26,667	(97,926)	1,928,740
May-19	1,928,740	25,717	(97,926)	1,856,531
Jun-19	1,856,531	24,754	(97,926)	1,783,358
Jul-19	1,783,358	23,778	(97,926)	1,709,210
Aug-19	1,709,210	22,789	(97,926)	1,634,073
Sep-19	1,634,073	21,788	(97,926)	1,557,935
Oct-19	1,557,935	20,772	(97,926)	1,480,781
Nov-19	1,480,781	19,744	(97,926)	1,402,599
Dec-19	1,402,599	18,701	(97,926)	1,323,374
Jan-20	1,323,374	17,645	(97,926)	1,243,092
Feb-20	1,243,092	16,575	(97,926)	1,161,741
Mar-20	1,161,741	15,490	(97,926)	1,079,304
Apr-20	1,079,304	4,797	}	1,084,101
May-20	1,084,101	4,818		1,088,920
Jun-20	1,088,920	4,840		1,093,759
Jul-20	1,093,759	4,861		1,098,620
Aug-20	1,098,620	4,883		1,103,503
Sep-20	1,103,503	4,904		1,108,408
Oct-20	1,079,304	14,391	(97,926)	995,769
Nov-20	995,769	13,277	(97,926)	911,120
Dec-20	911,120	12,148	(97,926)	825,342
Jan-21	825,342	11,005	(97,926)	738,420
Feb-21	738,420	9,846	(97,926)	650,339
Mar-21	650,339	8,671	(97,926)	561,084
Apr-21	561,084	7,481	(97,926)	470,639
May-21	470,639	6,275	(97,926)	378,988
Jun-21	378,988	5,053	(97,926)	286,115
Jul-21	286,115	3,815	(97,926)	192,004
Aug-21	192,004	2,560	(97,926)	96,638
Sep-21	96,638	1,289	(97,926)	0

Example 2				
Original loan amount	2,000,000			
Interest Rate(IRR)	24%			
Expiry Date	Mar-24			
Installment	57,535.93			
Period of the loan	60 months			
Total Interest accrued during moratorium Period				
	58,139			
Remaining maturity at the end of the moratorium period				
	48			
Equated installment of the new term loan				
	2,422.44			
	Capital O/S	Interest	Installment	Bal C/F
Apr-19	2,000,000	40,000	(57,536)	1,982,464
May-19	1,982,464	39,649	(57,536)	1,964,577
Jun-19	1,964,577	39,292	(57,536)	1,946,333
Jul-19	1,946,333	38,927	(57,536)	1,927,724
Aug-19	1,927,724	38,554	(57,536)	1,908,742
Sep-19	1,908,742	38,175	(57,536)	1,889,381
Oct-19	1,889,381	37,788	(57,536)	1,869,633
Nov-19	1,869,633	37,393	(57,536)	1,849,490
Dec-19	1,849,490	36,990	(57,536)	1,828,944
Jan-20	1,828,944	36,579	(57,536)	1,807,986
Feb-20	1,807,986	36,160	(57,536)	1,786,610
Mar-20	1,786,610	35,732	(57,536)	1,764,807
Apr-20	1,764,807	9,559		1,774,366
May-20	1,774,366	9,611		1,783,977
Jun-20	1,783,977	9,663		1,793,640
Jul-20	1,793,640	9,716		1,803,356
Aug-20	1,803,356	9,768		1,813,124
Sep-20	1,813,124	9,821		1,822,945
Oct-20	1,764,807	35,296	(57,536)	1,742,567
Nov-20	1,742,567	34,851	(57,536)	1,719,882
Dec-20	1,719,882	34,398	(57,536)	1,696,744
Jan-21	1,696,744	33,935	(57,536)	1,673,143
Feb-21	1,673,143	33,463	(57,536)	1,649,070
Mar-21	1,649,070	32,981	(57,536)	1,624,515
Apr-21	1,624,515	32,490	(57,536)	1,599,470
May-21	1,599,470	31,989	(57,536)	1,573,923
Jun-21	1,573,923	31,478	(57,536)	1,547,866
Jul-21	1,547,866	30,957	(57,536)	1,521,287
Aug-21	1,521,287	30,426	(57,536)	1,494,177
Sep-21	1,494,177	29,884	(57,536)	1,466,524
Oct-21	1,466,524	29,330	(57,536)	1,438,319
Nov-21	1,438,319	28,766	(57,536)	1,409,549
Dec-21	1,409,549	28,191	(57,536)	1,380,204
Jan-22	1,380,204	27,604	(57,536)	1,350,273
Feb-22	1,350,273	27,005	(57,536)	1,319,742
Mar-22	1,319,742	26,395	(57,536)	1,288,601
Apr-22	1,288,601	25,772	(57,536)	1,256,837
May-22	1,256,837	25,137	(57,536)	1,224,438
Jun-22	1,224,438	24,489	(57,536)	1,191,391
Jul-22	1,191,391	23,828	(57,536)	1,157,683
Aug-22	1,157,683	23,154	(57,536)	1,123,300
Sep-22	1,123,300	22,466	(57,536)	1,088,230
Oct-22	1,088,230	21,765	(57,536)	1,052,459
Nov-22	1,052,459	21,049	(57,536)	1,015,972
Dec-22	1,015,972	20,319	(57,536)	978,756
Jan-23	978,756	19,575	(57,536)	940,795
Feb-23	940,795	18,816	(57,536)	902,075
Mar-23	902,075	18,041	(57,536)	862,580
Apr-23	862,580	17,252	(57,536)	822,296
May-23	822,296	16,446	(57,536)	781,206
Jun-23	781,206	15,624	(57,536)	739,294
Jul-23	739,294	14,786	(57,536)	696,544
Aug-23	696,544	13,931	(57,536)	652,939
Sep-23	652,939	13,059	(57,536)	608,462
Oct-23	608,462	12,169	(57,536)	563,095
Nov-23	563,095	11,262	(57,536)	516,821
Dec-23	516,821	10,336	(57,536)	469,622
Jan-24	469,622	9,392	(57,536)	421,478
Feb-24	421,478	8,430	(57,536)	372,372
Mar-24	372,372	7,447	(57,536)	322,284
Apr-24	322,284	6,446	(57,536)	271,193
May-24	271,193	5,424	(57,536)	219,081
Jun-24	219,081	4,382	(57,536)	165,927
Jul-24	165,927	3,319	(57,536)	111,710
Aug-24	111,710	2,234	(57,536)	56,408
Sep-24	56,408	1,128	(57,536)	(0)

Example 3				
Original loan amount	2,000,000			
Interest Rate(IRR)	24%			
Expiry Date	Mar-24			
Installment	57,535.93			
Period of the loan	60 months			
Total Interest accrued during moratorium Period				
	67,223			
Remaining maturity at the end of the moratorium period				
	48			
Interest accrued to be recovered after end of the contractual				
Installment 1	57,535.93			
Instalment 2	9,687.04			
	Capital O/S	Interest	stallment	Bal C/F
Apr-19	2,000,000	40,000	(57,536)	1,982,464
May-19	1,982,464	39,649	(57,536)	1,964,577
Jun-19	1,964,577	39,292	(57,536)	1,946,333
Jul-19	1,946,333	38,927	(57,536)	1,927,724
Aug-19	1,927,724	38,554	(57,536)	1,908,742
Sep-19	1,908,742	38,175	(57,536)	1,889,381
Oct-19	1,889,381	37,788	(57,536)	1,869,633
Nov-19	1,869,633	37,393	(57,536)	1,849,490
Dec-19	1,849,490	36,990	(57,536)	1,828,944
Jan-20	1,828,944	36,579	(57,536)	1,807,986
Feb-20	1,807,986	36,160	(57,536)	1,786,610
Mar-20	1,786,610	35,732	(57,536)	1,764,807
Apr-20	1,764,807	11,030		1,775,837
May-20	1,775,837	11,099		1,786,936
Jun-20	1,786,936	11,168		1,798,104
Jul-20	1,798,104	11,238		1,809,342
Aug-20	1,809,342	11,308		1,820,650
Sep-20	1,820,650	11,379		1,832,029
Oct-20	1,764,807	35,296	(57,536)	1,742,567
Nov-20	1,742,567	34,851	(57,536)	1,719,882
Dec-20	1,719,882	34,398	(57,536)	1,696,744
Jan-21	1,696,744	33,935	(57,536)	1,673,143
Feb-21	1,673,143	33,463	(57,536)	1,649,070
Mar-21	1,649,070	32,981	(57,536)	1,624,515
Apr-21	1,624,515	32,490	(57,536)	1,599,470
May-21	1,599,470	31,989	(57,536)	1,573,923
Jun-21	1,573,923	31,478	(57,536)	1,547,866
Jul-21	1,547,866	30,957	(57,536)	1,521,287
Aug-21	1,521,287	30,426	(57,536)	1,494,177
Sep-21	1,494,177	29,884	(57,536)	1,466,524
Oct-21	1,466,524	29,330	(57,536)	1,438,319
Nov-21	1,438,319	28,766	(57,536)	1,409,549
Dec-21	1,409,549	28,191	(57,536)	1,380,204
Jan-22	1,380,204	27,604	(57,536)	1,350,273
Feb-22	1,350,273	27,005	(57,536)	1,319,742
Mar-22	1,319,742	26,395	(57,536)	1,288,601
Apr-22	1,288,601	25,772	(57,536)	1,256,837
May-22	1,256,837	25,137	(57,536)	1,224,438
Jun-22	1,224,438	24,489	(57,536)	1,191,391
Jul-22	1,191,391	23,828	(57,536)	1,157,683
Aug-22	1,157,683	23,154	(57,536)	1,123,300
Sep-22	1,123,300	22,466	(57,536)	1,088,230
Oct-22	1,088,230	21,765	(57,536)	1,052,459
Nov-22	1,052,459	21,049	(57,536)	1,015,972
Dec-22	1,015,972	20,319	(57,536)	978,756
Jan-23	978,756	19,575	(57,536)	940,795
Feb-23	940,795	18,816	(57,536)	902,075
Mar-23	902,075	18,041	(57,536)	862,580
Apr-23	862,580	17,252	(57,536)	822,296
May-23	822,296	16,446	(57,536)	781,206
Jun-23	781,206	15,624	(57,536)	739,294
Jul-23	739,294	14,786	(57,536)	696,544
Aug-23	696,544	13,931	(57,536)	652,939
Sep-23	652,939	13,059	(57,536)	608,462
Oct-23	608,462	12,169	(57,536)	563,095
Nov-23	563,095	11,262	(57,536)	516,821
Dec-23	516,821	10,336	(57,536)	469,622
Jan-24	469,622	9,392	(57,536)	421,478
Feb-24	421,478	8,430	(57,536)	372,372
Mar-24	372,372	7,447	(57,536)	322,284
Apr-24	322,284	6,446	(57,536)	271,193
May-24	271,193	5,424	(57,536)	219,081
Jun-24	219,081	4,382	(57,536)	165,927
Jul-24	165,927	3,319	(57,536)	111,710
Aug-24	111,710	2,234	(57,536)	56,408
Sep-24	56,408	1,128	(57,536)	(0)
Oct-24	67,223	0	(57,536)	9,687
Nov-24	9,687	0	(9,687)	0