

3 Jul 2023

Banking

Non - rated

Circular 06/2023/TT-NHNN enhances credit qualities

More requirements for lending activities

We view that circular 06/2023/TT-NHNN requires more controls for lending activities than circular 39/2016/TT-NHNN, resulting in a longer screening process for loan disbursements, especially for credit institutions with low-risk appetites. However, in the long run, it helps enhance the credit qualities of the banking systems and the efficient use of capital flow to the economy. Furthermore, the circular also adds new regulations for lending via electronic channels as the trends of digital transformation in the banking system

The highlight regulations include prohibits for lending purposes of non-business and uncontrolled/unclear transactions; additions of the planning and projects for personal real estate loans for life needs; more specific internal rules for whole lending process and management, especially lending controls related to real estate, securities investments, Public-private partnership, life's capital needs with a large-value.

Besides, Circular 06 creates more favorable conditions: (1) lending for repayment of existing loans for corporations related to deferred payment foreign loans; (2) loans for repaying debts prior to the payment due, if fully meeting the requirement and not only for business activities.

Some highlight points as below:

More restrictions:

- 1) Add the plans and projects for the life needs relating to real estate (point c, clause 6, article 2)
- 2) Add more prohibits for lending purposes of non-business and unclear/uncontrolled transactions (Article 08):
- 3) More internal rules (article 22) on loan criteria, process, and risks management

Less restrictions:

- 1) Less restrictions to lend for repayments of existing loans (Clause 6, article 8):
- 2) Allow another currency for debt repayment (clause 2, article 11)
- 3) Additional new regulations for lending via electronic channels (section 3)

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Table 1: Main amendments in circular 06/2023/TT-NHNN

| No | Main amendments | Circular 39/2016/TT-NHNN | Circular 06/2023/TT-NHNN |
|----|---|--|---|
| 1 | Add the plans and projects for living purposes relating to real estate | Point c, Clause 6, Article 2 as follows: " c) Business plan or project (not applicable to the demands of borrowed funds for living purposes)" | Amending and supplementing point c, clause 6, article 2 as follows "c) Plans, projects to carry out business activities or plans and projects to serve the needs of life to buy houses; construction and renovation of houses; receive the transfer of land use rights to build houses" |
| | Add more prohibits for lending purposes of non-business and unclear/uncontrolled transactions | Article 8 Clause 6: Loans used for repaying loan debts owed to other credit institutions and foreign loan debts, except for loans used for repaying debts prior to the payment due date that fully meet the following requirements: a) Be a loan used for business activities; b) Have a loan term that does not exceed the residual loan term of an older loan; c) Be a loan under which the debt rescheduling has not been carried out. | Amending and supplementing Article 8 Clause 6: 6. To repay foreign loans (excluding foreign loans in the form of goods purchase and sale with deferred payment), credit extension at other credit institutions, except for loans to repay loans before maturity. The loan fully meets the following conditions: a) The loan term does not exceed the remaining loan term of the old loan; b) It is a loan that has not yet been restructured. |
| 2 | | | Add articles: 7. Make deposits in banks 8. Make capital contributions, acquisitions, and received share transfers: LLCs, partnerships, unlisted JSC, or those which have not registered for trading on Upcom. 9. Make capital contributions under capital contribution agreements, investment cooperation agreements, or BCCs to implement projects which do not satisfy commercial operations. 10. Make financial reimbursement (except for: expenses advancing payment by their own fund for business project implementation and arising less than 12 months; paid expenses related to projects submitted to credit institutions for consideration for granted medium and long-term loans) |
| 3 | Currency for debt repayment | Clause 2, Article 11 The currency unit used for debt repayment is the one used in a principal loan | Amending and supplementing: Allows borrowers to repay in another currency for the principal debt subject to the agreement between the borrower and the lender and the applicable laws. |
| 4 | Debt collection sequences | Clause 4 Article 18: The order of debt collection: In terms of overdue loan debts, the credit institution shall observe the order in which collection of the principal amount will take priority over that of the interest amount | Amending and supplementing: Clarify the sequence for debt collection with one or more overdue repayment periods. The order of debt collection is as follows: - overdue principal - interest in an overdue principal - due principal - Interest on the due principal that remains unpaid |
| 5 | More specific regulations on internal processes | | Add specific requirements: Along with more specific internal rules for loan eligibility criteria, additional cases for loan processing, inspection, and supervision, internal rules content regulations on controlling lending for securities investments, real estate purchase and business, investment projects in the form of public-private partnership, life's capital needs with a large-value as assessed by credit institutions, loans via electronic channels. Some specific conditions for electronic loans include (1) electronic lending information system security (level 3 or above) (2) technical solutions, technology to identify and verify information (3) the outstanding loans for individual customers with living purposes do not exceed VND100mn at a credit institution. |
| 6 | Additional new regulations for lending via electronic channels (section 3) | | |

Sources: SBV, KIS

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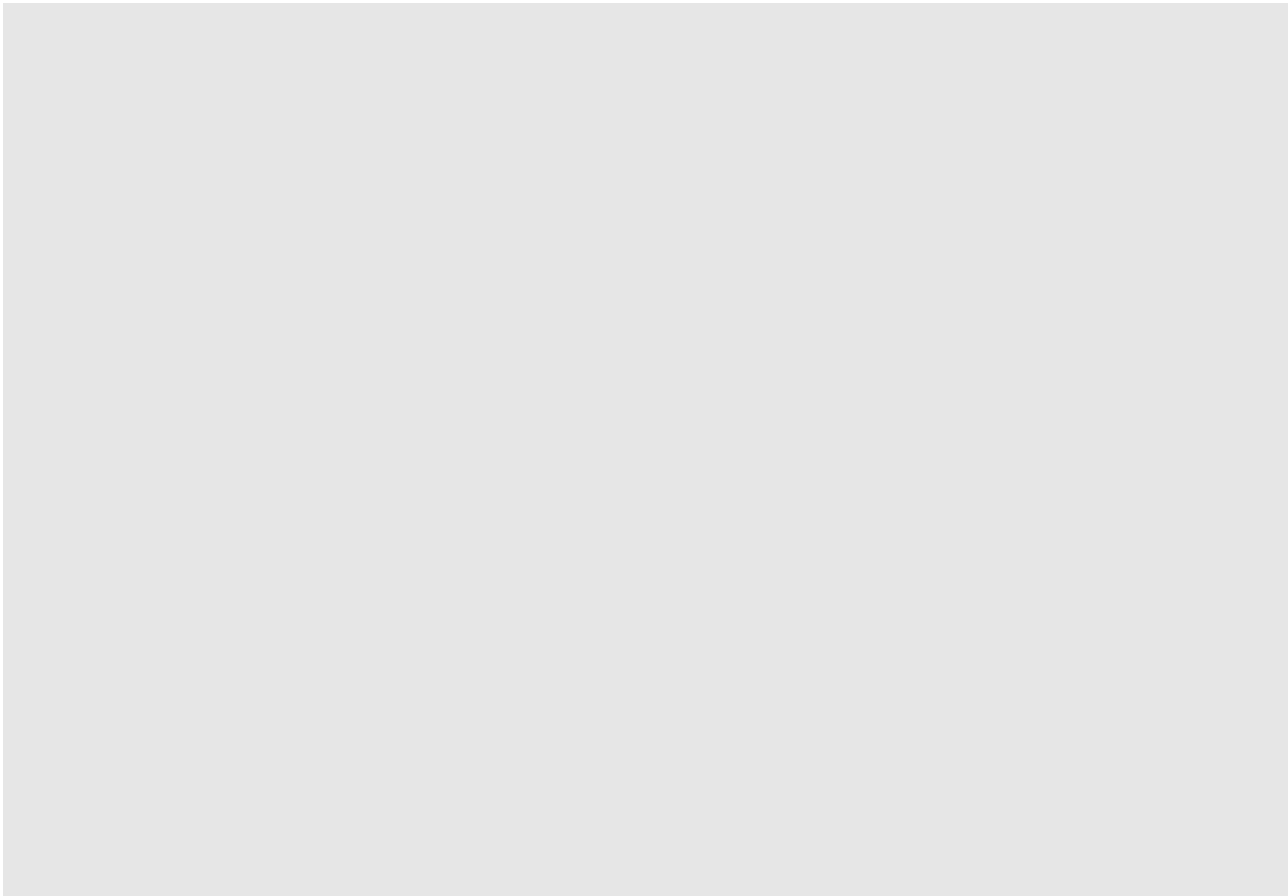
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