NPL and distressed asset market in Vietnam

Regional foreign investors’ views

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Pre-requisites to attract foreign investors
Attractive Markets for Investing

- Volume
- Macroeconomic environment
- Servicing capacity
- Quality of information
- Legal and regulatory framework
The experience of Korea

01. Strong Political Will to deal with the NPL issue

02. Velocity – process was established and executed upon

03. Open market transactions, foreign capital welcome (essential in reality), and rules adjusted to enable

04. Market Clearing Prices, at volume and with enough frequency to create business opportunity

05. No cherry picking of assets so only bad assets sold

06. Central AMC (KAMCO), that was fully empowered
The experience of Thailand

01 Strong Political Will to deal with the NPL issue

02 Focused on biggest challenges first. Market clearing sales of assets

03 Retail assets sold in large volume (eg vehicle loans), allowing building of servicers at scale

04 Encourage foreign participation through rules

05 Foreign Exchange access

06 Multi model approach, but all enabled
The experience of China

01. Political influence over banks’ practices, including credit lending and NPL write-offs

02. Lack of an effective bankruptcy regime where the PBOC acted as a savior for troubled banks

03. Banks lack capability to transfer assets, making it difficult to consolidate assets and stop process being disrupted by smaller lenders

- Issuing the discrete law that gives powers to the AMCs when appropriately licensed
- Tightening monetary discipline, and also listing SOE banks to introduce more independent governance
- Empowering the national AMCs to initiate NPL bulk purchases and consolidate transfers
The experience of China

01 Diversified regulatory mechanism for the AMCs, the AMCs lack capacity for DPOs

02 Lack of an unified and consistent legal framework, lack of an effective judicial system

03 Restrictions against foreign ownership of immovable properties

04 Transfer taxes disincentivized the transfer of assets to consolidate holdings or to specialist resolution vehicles

01 Issuing the discrete law that gives powers to the AMCs when appropriately licensed to negotiate DPOs and other resolution strategies

02 Introduction of bankruptcy capabilities for the AMCs to utilize to create an orderly exit for failed businesses, as well as allowing debt-for-equity swap arrangements

03 Allow foreign investors to partner with local servicing companies and having waterfall participation through the servicing arrangement

04 Issuing the discrete law that removes transfer taxes for the AMCs when appropriately licensed
Initial foreign participation in China NPL market

- NPL originators
  - Purchase price
  - NPLs

- State-owned AMCs
  - Purchase price
  - NPLs
  - Service agreements

- Local private participation
- Local servicing companies

- Foreign investors

Purchase price

NPL originators

State-owned AMCs

Purchase

price

Local
private
participation

Local servicing companies

Foreign investors

NPLs

Service agreements
Investors’ view on the Vietnam NPL market
MARKET IMPEDIMENTS

- Lack of good-quality information disclosure
- Need for a thorough analysis clarifying the Vietnamese relevant restrictions

LOCAL MARKET

- Inefficient Legal & Institutional Framework
- Limited creditors’ rights
- Ineffective debt collection and resolution systems
- Inadequate insolvency regime

FOREIGN INVESTORS ENTRANCE BARRIERS

Underdeveloped Market Infrastructure

VALUE GAPS
Information Asymmetry

Local restrictions against NPL collection & resolution

Potential transaction structures & repatriation

Local restrictions against NPL collection & resolution

Local restrictions against NPL transfers & security rights

Actual status of the underlying collaterals

Borrower’s credit relations and the NPL conditions

BUYER

SELLER
Inefficient Legal & Institutional Framework

- Foreign investors
- Entrance barriers
- Licensing and authorization requirements
- Pre-mature insolvency regime
- Foreign investment restrictions
- The need for debtors’ consent
- Restrictions on foreign ownership of real estates

Vietnam NPL market
Underdeveloped Market Infrastructure

**Volume** is an important factor for international investors

- Foreign investors need to access a large enough market as need to invest in the infrastructure to resolve assets as well as pay for due diligence costs across multiple portfolios purchased.
- A small market volume might not meet the scale required.

**A robust servicing infrastructure** is necessary to attract leading investors

- A track record of trades supported by sufficient data that can be used to assess investments.
- Corporate or SME distressed loans are usually a periodic event, following a prolonged and/or severe economic or financial distress in a country.

**Lack of capital market instruments** dampens the market efficiency

- Capital market instruments enable an efficient secondary NPL market.
- Investors request clarifications on the flow of capital, potential investment structures and profit repatriation.
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