



ADB

VAMC

Loan and Collateral Valuation

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Practices in Vietnam

I. Overview of loan & collateral valuation in Vietnam

1. Determining the value of loans in Vietnam (under the view of accounting)

Original loan + interest + fine interest

2. Loan & collateral valuation

2.1. In Vietnam, the assessment of NPLs and collaterals has always been an internal matter of the banks:

- The valuation of loans and collaterals taken by the credit officers in the past.
- The independent valuation departments established for the purpose of creating objectivity → Various methods and processes of valuation without the consensus among the banks.

2.2. Initial evaluation of NPLs and collaterals required under Decree Number 61/2017/NĐ-CP in the following cases:

- NPLs purchased by AMCs at book value in the form of special bonds which auction starting price cannot meet the expectation of both AMCs and banks.
- NPL purchased by AMCs at market value.
- Collateral of NPL, in which, AMC and guarantor party are disagree about the auction starting price.

2. Loan & collateral valuation

2.3. Evaluation of the NPL from debtor's other financial resources:

In addition to selling collaterals, banks has other options to collect their lending money from the debtors' other financial resources:

- Other assets of the enterprises (in case of Ltd. and Jsc. companies);
- Enterprise's private assets, personal assets (in case of private enterprises or individuals).

3. Difficulties and challenges for the collateral valuation in Vietnam

3.1. Too high prices due to the debtors' ideas that are unprofessional or collected from unofficial sources.

This fact has a great impact on the valuation process of collateral due to conflicts of interest between the banks and their customers.

3.2. The process of collateral valuation for the purpose of NPL resolution is unseparated from other common property valuations.

That might lead to the situation in which seller can not make his decision due to fear of the subjectively set price that can be much lower than the amount of the loan in reality.

3. Difficulties and challenges for the collateral valuation

3.3. The participation of local government is not powerful and asynchronous enough. Debtors are often uncooperative in the process of collateral resolution.

That fact leads to many difficulties for credit institutions when implementing NPL resolution methods.

3.4. The limitation of scope when choosing NPL and collateral appraising organizations which are required to be located in the cities or provinces.

- *Many locals have only couple of NPL and collateral appraising organizations whose abilities and reputations are unreliable.*
- *That might lead to the lack of transparency and the collusion among executors, appraisers and auctioneers.*

II. Practices of Vietnam (from the experiences of VAMC & DATC)

1. Cases of NPLs and collateral valuation at VAMC and DATC

- Trading and handling NPLs and collateral.
- Setting up risk reserve.
- Other cases.

2. NPLs and collateral valuation methods adopted by VAMC & DATC

- Hiring independent valuating organizations.
- The AMCs conduct valuation by themselves.

3. Limitations and difficulties of VAMC & DATC regarding to NPL & collateral valuation

- Difficulties in evaluating the value of NPLs: determining the information about the rights and obligations of the debtors is difficult, especially for organizations which have been out of business for a long time.
- NPL arised from businesses which operate in some specific fields might cause difficulties for AMCs in the process of collateral evaluating as a base for NPLs trading activities.

3. Limitations and difficulties of VAMC & DATC regarding to NPL & collateral valuation

- Vietnam's current valuation standard is built on the basis of IVSC International Valuation Standard System, but has not been updated.
- Valuation standards for NPLs have not been issued. International NPL valuation practices are also different in each country.
- The value of the NPL offered when VAMC performs a transaction (purchase/sale) may be assessed subjectively and inaccurately in terms of market reflection.
- NPL valuation needs many different assumptions and scenarios depending on information of the debtors.

Thank you!



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