



The Amended Law on Credit Institutions & Real Estate Business Law & Land Law

From challenges to opportunities

June 2024



Background

- The National Assembly of Vietnam has announced new **Law No.32/2024/QH15 on Credit Institutions** ("CI law") which comes into effect from 1 July, 2024. This CI Law is designed to address several shortcomings identified in the current CI Law from 2010 (amended in 2017) and align with international standards that Vietnam is required to implement.
- The new **Law No. 29/2023/QH15 on Real Estate Business*** ("Real Estate Law") will take effect on 1 August, 2024, subject to National Assembly's approval, with the objective of enhancing clarity and transparency within the Vietnamese real estate market. Additionally, it is important to take note of the new **Land Law No. 31/2024/QH15** ("Land Law"), also scheduled to take effect on 1 August, 2024. This law aims to modernise land management, promoting fairness, and strives for sustainable socio-economic development.
- These reforms reflect the government's commitment to aligning the sector with international best practices and contributing to the transparency, integrity and stability of the banking and real estate industries. Business should seize this opportunity to assess the regulatory impacts and use them to create distinct competitive advantages, as opposed to automatically viewing regulatory impacts as a roadblock.

What are the key updates in the amended Law on Credit Institutions (“CI”)?

The changes arising from the amended Law on Credit Institutions mean that all reporting entities need to upgrade their procedures and processes to meet the compliance requirements set by the National Assembly of Vietnam. Here are key changes that reporting entities should be aware of.

1 Lower ownership limit & tightened disclosure requirements

- The law introduces measures to mitigate risks associated with cross-ownership and manipulation, leading to a more stable and trustworthy banking sector. It reduces the permissible ownership stakes for Vietnamese organisational shareholders (including indirect shareholders) from 15% of the charter capital of the credit institution to 10% and for individual shareholders and related persons from 20% to 15%, impacting some individual shareholders and related persons with about a 16.6% stake and organisational shareholders with a 15% stake in the prominent players in Vietnam’s banking system*.
- The current ownership limits provided under Decree No. 01/2014/ND-CP remain for foreign investors until a new provision is issued by the government.
- The law also adds the responsibility to publicly disclose comprehensive information on shareholders holding 1% or more of a credit institution's charter capital, including details of the shareholder, their related persons and ownership detail.



Impact

Opportunities:

- **CI:** diversification of shareholder base
- **Investors:** market entry opportunity for new investors, portfolio diversification by investing in small stakes across multiple CIs
- **Customers:** trust enhancement

Challenges:

- **CI:** potential decrease in long-term strategic investment, administrative burden with compliance cost
- **Investors:** investment strategy reassessment and adjustment

*Source: Data in the management report of top 10 leading banks in Vietnam as of 31 December 2023.

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2 Reduction in Credit extension

- The amended law stipulates a 5-year roadmap for commercial banks and foreign banks to gradually reduce credit limits for a single customer (from 15% to 10% of their equity) and groups of single customers and related persons (from 25% to 15%) to minimise the concentration risk.
- The law also requires non-bank credit institutions to limit their credit exposure to not exceed 15% of their equity for a single customer or 25% for a group of single customers and related persons, starting July 1st, 2024.

Impact

Opportunities:	Challenges:
<ul style="list-style-type: none">• CI: credit portfolio diversification, spreading risk across a broader array of borrowers.• Customers: potential advantage for small businesses who seek loans	<ul style="list-style-type: none">• CI: credit lending strategy revision along with updated credit risk management processes and IT system; impact on client relationships.• Customers: complexity and borrowing cost increase to that of secure funding, such as syndicated loans.

*Source: Data in the management report of top 10 leading banks in Vietnam as of 31 December 2023.

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3 Bancassurance

- The amended law formalises the prohibition on Credit Institutions and their managers, executives or staff linking the sale of non-compulsory insurance products to the provision of banking services.
- The State Bank of Vietnam will provide further guidance on bancassurance activities.



Impact

Opportunities:

- **CI:** reputation and trustworthiness enhancement
- **Customers:** customer rights protection enhancement

Challenges:

- **CI:** short-term revenue stream reduction, partnerships agreement revision
- **Investors:** potential impact due to the revenue decline
- **Customers:** potential cost implication due to the decoupling of banking and insurance services

4 Early intervention of the State Bank of Vietnam

The amended law supplements scenarios where the State Bank of Vietnam (SBV) is granted authority to take early intervening actions against credit institutions that fail to meet regulatory requirements e.g., bank run; violation of the credit institutions against the solvency ratio.



Impact

Opportunities:

- **CI:** guidance and support from SBV in identifying and rectifying potential issues, attractiveness increase for long-term investment
- **Investors:** increased trust in the bank's resilience leading to a higher appetite to invest in the bank.
- **Customers:** protection increase

Challenges:

- **CI:** risk management capabilities enhancement to ensure better prudential ratios.

What are the key updates in the amended Law on Real Estate (“RE”) business?

The changes arising from the amended Law on Real Estate business require entities managing their businesses to meet the compliance requirements and look for new opportunities in the real estate market.

1 Expansion of Property Types

- The new Law broadens the definition of real estate products to include existing and future properties such as houses, commercial properties (e.g., educational, medical, commercial), separate floor areas within constructions, and entire real estate projects.
- Buyers/transferees are entitled to land use rights certificates (LURCs) for these properties, ensuring legal ownership.



Impact

Opportunities:

Diverse investment options in residential, commercial, tourism, and industrial sectors.

Challenges:

Increased competition may affect pricing and profitability; understanding market demand is crucial.

2 Clearer Investor Requirements

- Real estate companies must be registered entities with a real estate business line specified in their Enterprise Registration Certificate.
- Exceptions exist for small-scale transactions or non-profit activities, allowing individuals to engage in real estate business without incorporating a company.
- While no fixed minimum charter capital is mandated, companies must demonstrate financial capability, including acceptable credit balance ratios and sufficient capital relative to the total investment.



Impact

Opportunities:

Stable investment environment with clearer regulations; easier market entry for individuals.

Challenges:

Ensuring compliance with financial requirements, balancing regulatory compliance with operational efficiency.

What are the key updates in the amended Law on Real Estate (“RE”) business?

The changes arising from the amended Law on Real Estate business require entities managing their businesses to meet the compliance requirements and look for new opportunities in the real estate market.

3 Foreign Investment Scope

- Foreign-invested economic organisations are categorised based on their scope of real estate business activities, aligned with the 2020 Investment Law.
- Limited activities are permitted for certain foreign-invested entities, including investing in real estate projects, leasing existing properties, or receiving transfers of projects for continuation.



Impact

Opportunities:

Clearer understanding of permissible activities for foreign investors; potential for international collaboration.

Challenges:

Limited scope for some foreign entities may restrict investment opportunities; careful assessment and compliance are required.

4 Off-the-Plan Transactions

- Most properties can be sold off-plan, allowing developers to sell before completion, with exceptions for transactions involving only land use rights with technical infrastructure.
- Restrictions are placed on deposit agreements, prohibiting developers from authorising third parties to sign agreements. Deposit amounts are capped at 5% of the total sale price.



Impact

Opportunities:

Pre-sales provide upfront capital and potential capital appreciation.

Challenges:

Restrictions on deposits and approvals may impact cash flow and lead to compliance issues.

What are the key updates in the Amended law on Real estate (RE) business?

The changes arising from the amended Law on Real Estate business require entities managing their businesses to meet the compliance requirements and look for new opportunities in the real estate market.

5 Transfer of Real Estate Projects

- Approval is required for project transfers, except for the specific cases outlined in the 2020 Investment Law.
- Conditions for partial transfers are outlined, including the separability of project components and discharge of mortgages prior to transfer.



Impact

Opportunities:

Clarity in transfer procedures enhances market liquidity; opportunities for acquisitions or divestments.

Challenges:

Approval requirements may introduce administrative burdens and delays, impacting deal timelines and costs.

What are the key updates in the new Land Law?

The new Land Law of 2024, together with the Law on Housing of 2023 and the Law on Real Estate Business of 2023, passed by the National Assembly in the fourth quarter of 2023, established a comprehensive legal framework for the real estate market.

1 Abolition of Land Price Framework

The new Land Law 2024 abolishes the previous land price framework, which had proven ineffective in reflecting true market values. Instead, it introduces a system of annual updates to the land price list. This change aims to ensure that land prices are more closely aligned with current market conditions, thereby promoting fairness and accuracy in land transactions.



Impact

Opportunities:

Dynamic pricing could lead to fairer valuations.

Challenges:

Uncertainty in predicting land prices may affect feasibility.

2 Mortgage over Land Use Rights (LUR)

Domestic organisations are now permitted to mortgage land use rights to entities other than licensed credit institutions, expanding financing options for land-related projects. However, foreign-invested enterprises are still restricted to mortgaging rights at licensed Vietnamese credit institutions. This differentiation reflects the government's cautious approach to foreign investment in land.



Impact

Opportunities:

Expanded mortgage eligibility enhances financing.

Challenges:

Restrictions on foreign investors limits financing options.

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3 Expansion Of LUR For Overseas Vietnamese Expatriates*

Vietnamese expatriates enjoy relatively full rights as Vietnamese citizens. The law states that Vietnamese expatriates and economic organisations with foreign investment are supplemented with rights to receive transfers and sublease land use rights within designated zones such as industrial zones and high-tech zones.



Impact

Opportunities:

Investment boost and remittance growth.

Challenges:

Regulatory complexity and increased demand.

4 Land Lease subject to Upfront Rental Payment

The new law allows for upfront land rental payments in specific circumstances, such as for certain investment projects or social housing constructions. This provision aims to incentivise long-term land use and investment in priority sectors, contributing to sustainable development goals.



Impact

Opportunities:

Upfront payments may align with financial planning.

Challenges:

Eligibility determination and compliance add complexity.

*Vietnamese expatriates are Vietnamese origin (with or without Vietnamese nationality) who reside outside of Vietnam

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The new Land Law of 2024, together with the Law on Housing of 2023 and the Law on Real Estate Business of 2023, passed by the National Assembly in the fourth quarter of 2023, established a comprehensive legal framework for the real estate market.

5 Conditions for transfer of LUR

Additional conditions are set for transferring land use rights, including the requirement to settle all financial obligations to the state. Moreover, when transferring land rights attached to technical infrastructure within real estate projects, investors must adhere to additional specifications outlined in real estate and housing laws. These conditions aim to ensure transparency and accountability in land transactions, protecting the interests of all parties involved.



Impact

Opportunities:

Clearer transactions reduce legal risks.

Challenges:

Meeting new requirements may require more time and resources.

6 Diverse forms of compensation

The new law expands the options for compensation available to land users whose land is reclaimed by the state. Previously, compensation was limited to land of equivalent use or value. However, the new law allows for compensation in various forms, including cash, housing, or land with different use purposes. This change provides greater flexibility and fairness to land users facing displacement.



Impact

Opportunities:

Flexibility in compensation offers tailored agreements.

Challenges:

Administrative complexity and negotiation efforts may increase.

Cross-impact between amended Law on CI, RE business and Land Law

Real estate increasingly relies on bank loans: while the proportion of equity capital and foreign investment is quite stable, bank loans account for 54% in the capital structure of real estate businesses*.

According to the State Bank of Vietnam**, as of September 2022, the outstanding credit exposure for the real estate sector totalled about 2.74 million billion VND, equivalent to 21.56% of the total VN credit exposure in 2023. Meanwhile, the NPL in real estate as of September 2023 was 2.89%, nearly reaching the regulatory threshold of 3%.

With these new regulations, real estate businesses and banks need to assess opportunities as well as identify areas that have a major impact on their financial program and customers to create distinct competitive advantages.

Source: [*Vietnam institute of Architecture, Cong Thuong*](#)

1 Impact of lower credit limit for Real Estate Customers

The amended regulation on CI will lower the limit for single customers and groups of customers, with a stepwise decrease each year until 2029, reducing the limit from 15% to 10% for single customers and from 25% to 15% for groups of customers. This change is expected to increase the complexity and cost of borrowing for real estate customers, who might need to seek syndicated loans, particularly when securing large capital sources

2 New real estate products drive increased bank funding opportunities

The amended law on RE business presents an opportunity to introduce new real estate products by expanding property categories to encompass both present and future developments. While most properties are eligible for off-the-plan sales, exceptions apply to transactions solely involving land use rights with associated technical infrastructure.

3 Broader mortgage options for Land Use Rights enables diverse entity participation in funding opportunities

Under the new Land Law, domestic organisations are now permitted to mortgage their land use rights to entities beyond licensed credit institutions. However, foreign-invested enterprises are restricted to mortgaging these rights exclusively at licensed Vietnamese credit institutions. This adjustment creates opportunities for a wider range of entities, such as multi-industry corporations and real estate companies, to participate in funding initiatives previously monopolised by credit institutions.

4 Transfer of real estate projects as collateral for debt recovery

The amended law on CI opens up opportunities for credit institutions to transfer real estate projects as collateral that meet strict regulations, in contrast to the previous law which only permitted the transfer of completed properties. Requirements include: approved detailed planning, completed site clearance, having a decision on land allocation or a land lease from a competent authority, and fulfillment of financial obligations, in accordance with the law on real estate business. This facilitates the debt collection process and minimises non-performing loans.



Next steps

With the coming changes in legislation, it is crucial for all stakeholders affected by the amended Law on Credit Institutions (CI), Real Estate (RE) business and Land Law to consider the following key questions.

This is especially important for Real Estate companies and Credit Institutions as they play significant roles which can greatly impact the financial services and real estate market.



Real Estate companies

- How can portfolios be diversified considering the expansion of property types?
- How can sales strategies be developed and deposit agreements adjusted to comply with approval processes?
- How can compensation policies be adapted to align with the changes in land law?
- What new financing options can be explored, and what restrictions accompany them?
- What conditions and legal guidelines should be considered for project and land transfers to comply with the new RE Business Law?




Credit Institutions

- How can I enhance my risk management framework to ensure compliance with the amended laws?
- How can I improve my credit limit management framework to comply with the amended law on CI?
- What new capabilities will be needed in this evolving environment, and how should they be acquired?
- What new funding opportunities are implied by the amended laws on real estate business and land law?
- What are the implications of newly included property types on bank funding opportunities?

How can PwC help?

We bring together a diverse community of real world experience from across PwC, working with you to identify both risks and opportunities, create a panoramic view of your unique business landscape and help you to deliver sustained outcomes.

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|  | Risk Management Framework enhancement |  | Capital management and optimisation according to international standards |
|  | Credit Limit Management Framework and Tool development and improvement |  | Development of Real Estate strategies in line with the revised laws |
|  | Digital transformation and Data Management framework implementation |  | Financing of Real Estate projects aligned to the new CI and Real Estate laws |



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