

Assessing the impact of the new lending policies for early repayment of loans at other banks

Immediately after Circular 06/2023/TT-NHNN took effect from September 1, 2023, some large banks have implemented the new lending policies for individual customers to repay loans before the due date at other banks with a preferential lending rate of 6%-8% (depending on the preferential period) and transfer the loan with the original remaining term along with the collateral to their bank.

This raises some concerns that competitive pressure on lending interest rates in the near future will increase and banks' net interest margin (NIM) will shrink. However, we do not expect the new policy to have a significant impact on banks' NIMs for the following reasons:

- (1) Most high value loans for individual customers require collateral, so customers still need to pay off the old loan **before** the maturity date to be able to withdraw the collateral at the previous bank and use it as collateral to borrow at the new bank.
- (2) Normally, banks will apply a penalty fee of 1%-3% for customers who pay off their loans early in the first 1-5 years. This will increase the conversion costs for customers who want to borrow from the new bank to repay loans early at the old bank. In addition, a new loan will normally have to be accompanied by a new insurance policy and partially increase costs for customers.
- (3) Each bank's risk appetite is very different. The requirements for proof of customers' income, financial situation, collateral valuation and credit limit on collateral value (LTV) vary from bank to bank and therefore, customers still need to satisfy the above requirements when borrowing at a new bank.
- (4) In fact, competition on lending rates between banks has always taken place. However, for customers, the decision to choose a bank for a loan depends on many factors other than interest rates such as the ability to be accepted the legal of the collaterals, the valuation of the collaterals as well as the credit limit granted by each bank.

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