Enter the Financial Institutions Strategic Transfer (FIST) Law.

Signed in February, the FIST Law (Republic Act 11523) opens doors for credit-granting institutions to clean their balance sheets by selling their NPAs to asset management companies called FIST corporations (FISTCs) that are registered with the Securities and Exchange Commission (SEC).

Assets that will be recognized as nonperforming until Dec. 31, 2022 will be eligible to be sold under the law to FISTCs.

Before selling their determined NPAs, however, financial institutions need to secure a certificate of eligibility (COE) from the Bangko Sentral ng Pilipinas (BSP) as a documentary approval that their determined assets can be sold to FISTCs. This will also allow them to avail of tax incentives and fee privileges of the transaction.

The BSP approved the implementing rules and regulations (IRR) of the law on May 20, including the procedure for getting the certificate of eligibility for targeted NPAs that banks want to dispose of. As of this writing, the BSP is not yet accepting applications of COEs, said BSP Deputy Governor Chuchi G. Fonacier.

"Once the circular and the memorandum to all BSP-supervised financial institutions are signed and issued, the BSP will start accepting requests on the sale of nonperforming loans (NPLs) and real and other properties acquired (ROPA), collectively known as NPAs," Ms. Fonacier said in a Viber message.

Circular No. 1117 Series of 2021 signed by Governor Benjamin E. Diokno on May 27 formally opened the opportunity for financial institutions to seek regulatory approval for offloading NPAs through applying for COEs. The circular also requires the need for BSP-supervised financial institutions to give prior notice to borrowers before selling their loans and the prudential reporting for tax and fee privileges availed from transactions.

The central bank took on the learnings from the Special Purpose Vehicle (SPV) Act of 2002, which was the equivalent measure of the FIST Law that addressed the bad loan pile up caused by the Asian Financial Crisis. For one, the turnaround time for the issuance of the COE has been reduced to 20 days from the receipt of the application, much shorter than the 45-day allowance in the SPV, Ms. Fonacier said.

Lending has been in decline since December. In April, outstanding loans by big banks dropped by 4.5%. Central bank officials have attributed the credit slump partly to tighter credit standards by banks to shield against the rise in bad loans.

The industry-wide NPL ratio stood at 4.21% as of end-March, higher than the 2.25% a year earlier. This, as bad loans surged 80% to P448.593 billion in March.

Against this backdrop, the FIST Law is seen to help soothe banks' worries on NPL buildup, which is still relatively comfortable compared to the peak of 17.6% in 2002 in the aftermath of the Asian Financial Crisis based on BSP data.

The BSP expects the law to help reduce the banking system's NPL ratio by about 0.63 to 0.73 percentage point as lenders are expected to dispose of at least P152 billion in NPAs.

"[FIST is] just a fallback position. But we don't see any situation worsening at this time. Even without [it], the banking industry can handle the current crisis," BSP Governor