



Secondary NPL Market: The Case of the Philippines

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Prepared by:
Kacy Anne B. Nazarrea
Bernadett V. Operaña
Patricia Ann A. Tuazon

Bangko Sentral ng Pilipinas



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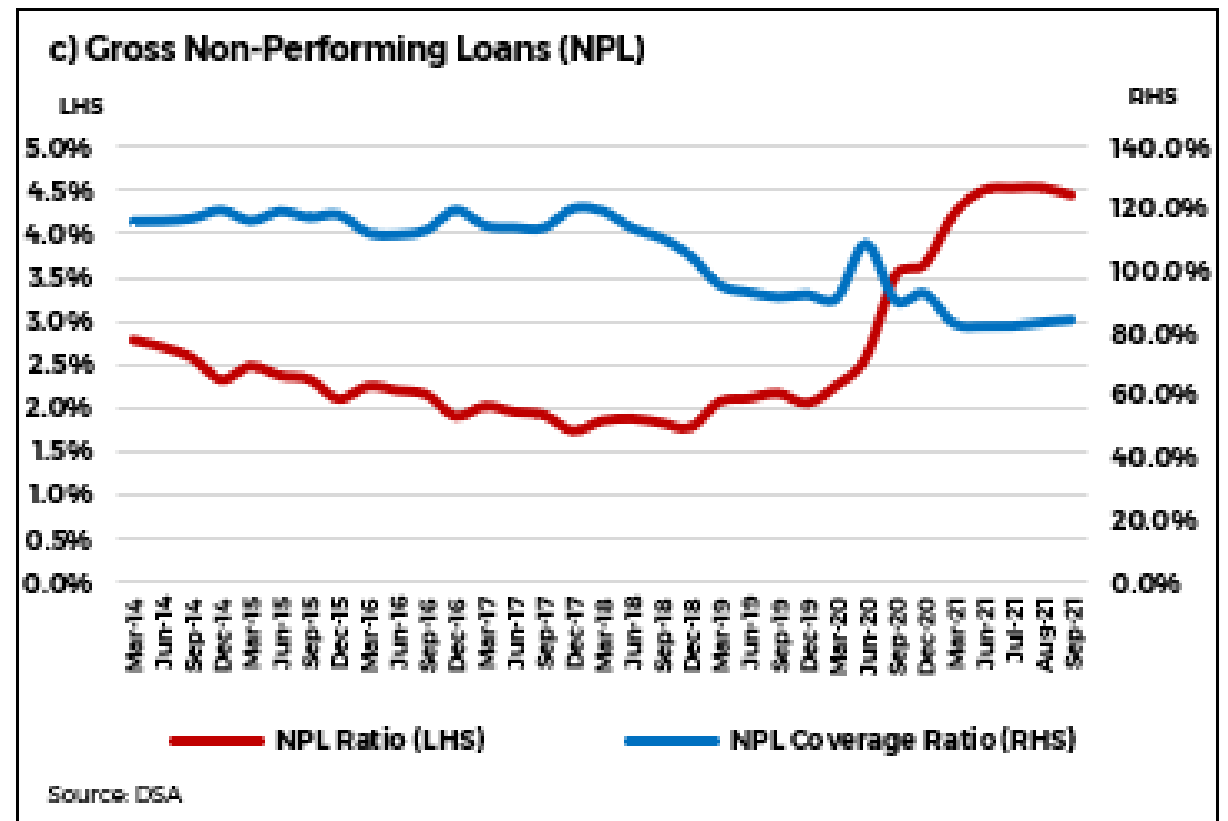
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Recent Trends in the Philippine NPL Levels

- Increase in NPL ratio which posted 2.04% as of-end 2019 and peaked at 4.61% in July 2021.
- Forecasted NPL ratio is between 5%-6% by end-2021 and 8.2% by end-2022.



Status of NPL Markets in the Philippines



Background on Secondary NPL Markets

- Bank-internal work out, direct sales, securitization and AMCs.
- The Special Purpose Vehicles (SPV)/Financial Institution Strategic Transfer (FIST) Corporations are organized as stock corporations under Philippine Laws with the primary purpose of investing in or acquiring NPAs of financial institutions and disposing of them through various strategies.
- SPV/FIST corporations are private-owned AMCs.

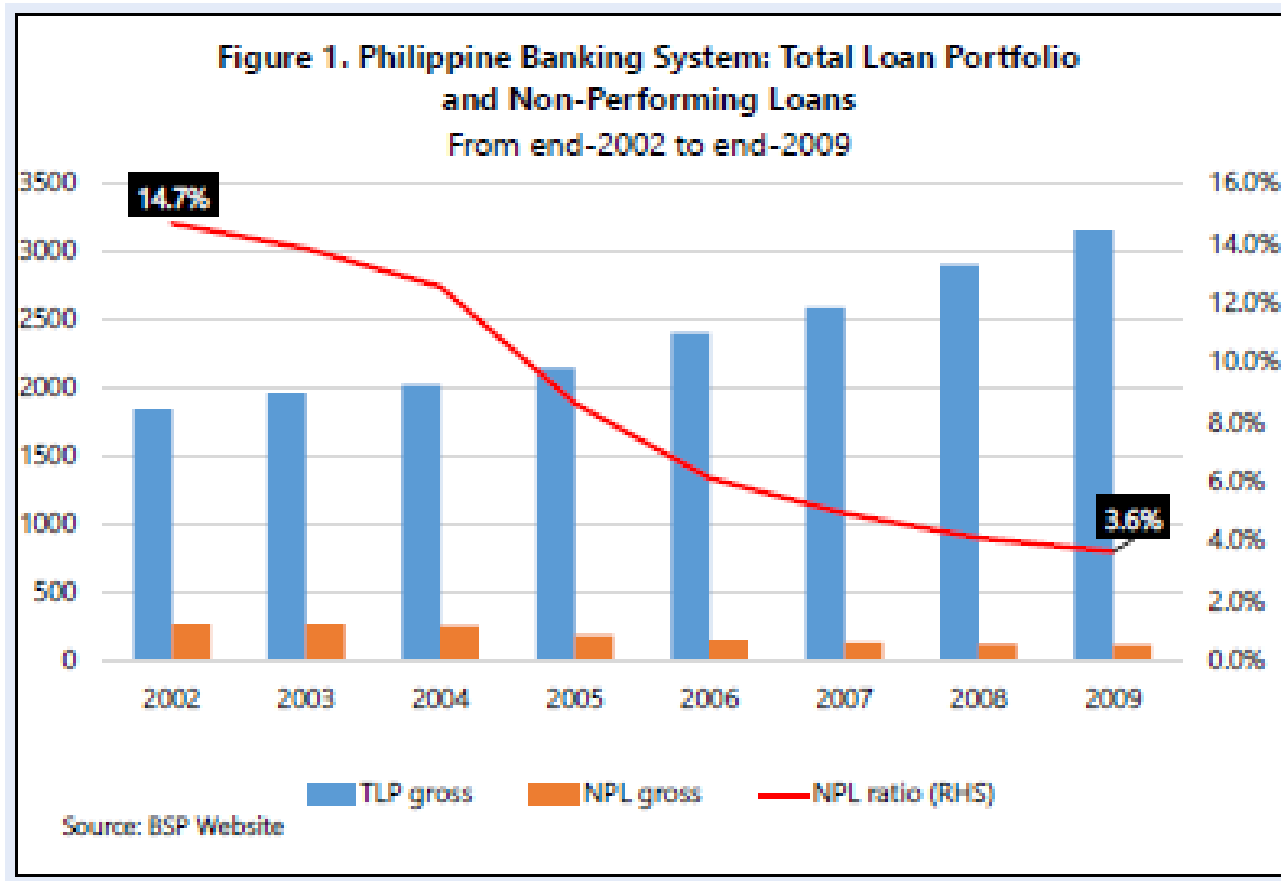


Special Purpose Vehicle (SPV) Act of 2002

- Response to Asian Financial Crisis
- NPL ratio ranged from 3.0% - 3.4% in the first half of 1997 and peaked at 18.6% in 2001.
- SPV law enacted in December 2002 and took effect in April 2003.
- Provides legal framework through which banks can transfer their NPAs to a separate entity, the SPVs. It also granted fiscal incentives (tax exemptions and fee privileges) to SPVs.
- BSP created a masterlist of all qualified NPAs in the financial system and issued COEs for availment of incentives.



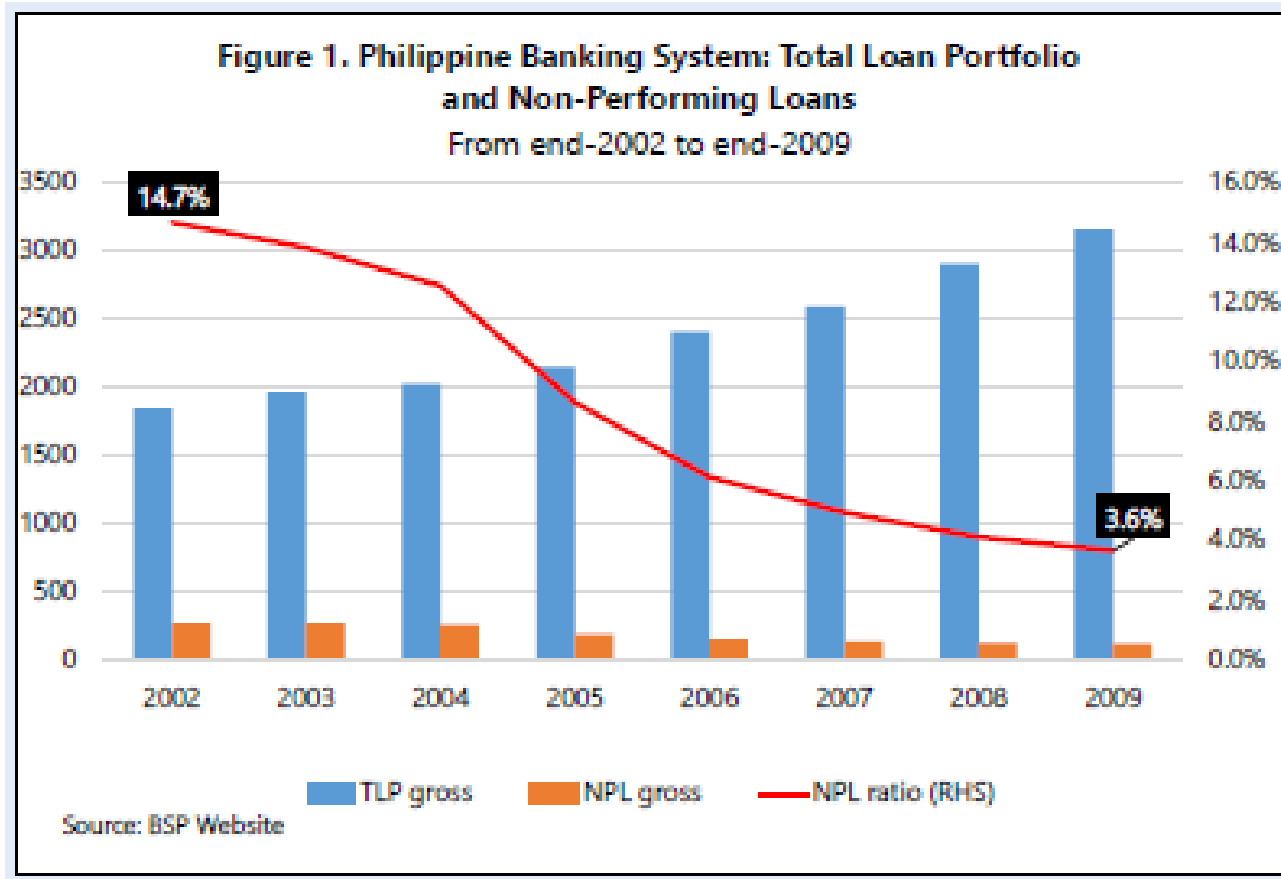
Special Purpose Vehicle (SPV) Act of 2002



- Banks off-load P146.2 billion NPAs (P120.0 billion NPLs)
- NPL ratio remarkably improved from 14.7% as of end-2002 down to 3.6% as of end-2009.



Special Purpose Vehicle (SPV) Act of 2002



- 30% of the NPAs sold to SPVs were covered by the tax benefits under the Law.
- Upon expiration of the SPV Act (May 2009), only P12.4 billion of NPAs (8.5% of transferred NPAs) remained unsold.



Financial Institution Strategic Transfer (FIST) Act of 2021

- Allows establishment of FISTCs and encourages FIs to transfer/sell their NPAs. It also grants fiscal incentives (tax exemptions and fee privileges) to participants.
- Ongoing initiative; Applicable to assets that are classified as NPA on or before 31 December 2022.
- As of date, Securities and Exchange Commission (SEC) has approved 5 FISTCs and is still in the process of registering others. No transfer made under the Act yet.



Financial Institution Strategic Transfer (FIST) Law of 2021

- Estimate of disposal of around 30 percent of the accumulated NPLs, and reduction of NPL by 0.6 percent to 5.8 percent for the next five years.
- BSP to maintain a masterlist of eligible NPAs and accordingly issue COEs for availment of incentives.



Securitization Act of 2004

- Provides legal and regulatory framework for securitization to implement the policy of the State to promote development of capital market by supporting securitization and creating favorable market environment for a range of asset-backed securities



Restructuring

- BSP supervised entities are given the flexibility to grant financial relief to their borrowers through loan payment terms that consider their paying capacity and cash flows. Nonetheless, the designed loan terms must be based on a forward-looking assessment of their client's profile and payment capacity.
- Restructured loans jumped to P338.5 billion as end-September 2021 (3.1% of total loan portfolio), more than twice the P130.9 billion registered the same period last year (1.2%).



Direct Sales - Foreclosure of Assets and Disposal

- Bidding process for disposal of acquired assets is implemented
- The invitation to bid is announced through:
 - (a) publication in a newspaper of general circulation
 - (b) posted in the Bank's website, and
 - (c) other social media accounts of the Bank.
- The list of properties including the bidding procedures and bid rules are posted and fully disclosed.



Challenges in the Development of Secondary NPL Markets



Challenges

Timeboundedness of fiscal incentives

Length of legal/judicial process



Thank You!



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