

**JOINT OIREACHTAS COMMITTEE ON  
FINANCE, PUBLIC EXPENDITURE AND REFORM**

**24<sup>th</sup> October 2012**

**Opening address by NAMA Chief Executive, Mr. Brendan McDonagh**

I would like to begin, Chairman, by congratulating you on your recent appointment and thanking you for the invitation to address today's Committee meeting. The opportunity is timely in light of a number of developments since we last spoke to this Committee in March. In particular, I intend to focus on our 2011 financial results, published over the summer, which highlight the significant progress that we are making towards achieving our strategic goals. I will also talk briefly on the measures that we are adopting to support recovery in our housing and commercial property markets. In his address, the Chairman will brief you on the progress that we are making towards our ultimate objective, repaying our debt, and the wider contribution that we are making towards economic recovery.

**Results in 2011**

Perhaps the most important measure of NAMA's performance is cash-flow generation and this remains very strong. From inception to the end-2011, we had generated cash receipts of €6.1 billion from debtors, which was applied towards interest and loan repayment. That cash includes not only the proceeds of asset disposals by our debtors and receivers but also recurring income, such as rent, generated by assets controlled by debtors. The strong cash performance – we ended 2011 with cash and qualifying liquid assets of €3.8 billion having repaid €1.3 billion in debt during the year - has enabled us to remain firmly on course to meet our debt repayment targets.

Our results also highlight our strong business performance. This includes asset sales approvals in 2011 of €5.6 billion. Total sales approved stand at €10.5 billion today: €6.2

billion have completed and there are over €2 billion in the pipeline. Another €2 billion of sales approvals have not completed for various reasons.

By end-September 2012, we had also approved new credit advances for working and development capital of €1.6 billion, reflecting our commitment to invest in the assets securing our loans where it makes commercial sense to do so.

The headline result from our Annual Report and Financial Statements for 2011 is that we made a profit of €247 million. This was after providing for an impairment charge of €1.27 billion in 2011, bringing our cumulative provision for 2010 and 2011 to €2.75 billion, which reflects conditions in the property markets and principally the Irish market. However, I would also point out that, at end-2011, we had significant unrealised surpluses on our books which aggregated to about €1.8 billion. The Board has prudently decided that these surpluses should not be reflected in the Agency's Income Statement until they are realised in cash terms.

### **Quarterly Accounts 2012**

Our strong financial performance of 2011 has continued into 2012. Last week, we published our financial accounts for the second quarter of 2012. The accounts show that NAMA made a net profit of €89 million during the quarter and, after taking account of an impairment charge of €129 million, €222 million net profit for the first half of the year. The accounts also show that cash receipts from inception had increased to over €8 billion by end-June. Of this, €5.2 billion was generated from asset disposals and €2.9 billion related to 'non-disposal' activity reflecting intensive management of the assets securing our loans. Cash receipts had, by mid-October, increased further to €9.5 billion, €6.2 billion from disposals and €3.3 billion from recurring income.

### **Debtor Engagement**

I informed the Committee in March that, through our engagements with debtors, we had secured €384 million in unpledged security through charges over previously unencumbered assets and the reversal of asset transfers to connected parties. In the intervening period, we

have secured an additional €130 million in unpledged assets, bringing the total to €514 million. This has been achieved with consensual debtors. We are continuing to pursue debtors to obtain further unpledged security. In the case of debtors who are not working consensually with us, this includes going through the courts where appropriate. To date, we have initiated cases in the Irish and English High Courts and in the US courts for the reversal of asset transfers, including residential property, shares and other assets.

We have also made two formal complaints to the Garda Bureau of Fraud Investigation arising from a possible failure by debtors to fully disclose their assets and liabilities in their statements of affairs to the Agency. The intentional provision of false or inaccurate information to NAMA is a criminal offence. The Gardaí and the Director of Public Prosecution will ultimately take a view whether to pursue these complaints.

The impact of debtors declaring bankruptcy in the UK has also attracted recent attention, including Parliamentary Questions from members of this Committee. The comparatively shorter duration of bankruptcy in the UK compared to Ireland is not a source of concern for NAMA as the bankrupt's unsecured assets remain in the control of the bankruptcy trustee long after the discharge from bankruptcy. Any failure to make full disclosure may result in the period of bankruptcy being extended beyond the one year period until such time as the bankrupt party co-operates.

Furthermore, our experience is that the bankruptcy regime in the UK is well established and that trustees under the system possess extensive powers to compel the production of both legal and banking information on a cross-border basis. These powers have been used in cases involving NAMA debtors to uncover significant undeclared properties and other assets and we are assisting the bankruptcy trustee in continuing to pursue a number of debtors who may have thought that they had put themselves and their assets beyond reach.

### **Commercial property market**

We are all aware that Irish banks and other banks in the Irish market currently have little appetite for lending for Irish commercial property and that that is compounding difficulties in an already moribund market. As part of our strategy to facilitate the investment of funds from abroad into the Irish commercial property market, we also signalled our intention earlier

in the year to establish Qualifying Investor Funds (QIFs) when tendering for investment management services. QIFs provide NAMA with the option of assembling portfolios based on asset types and geographic regions in a way that is attractive to international investors. We remain on course to launch at least one QIF before the end of the year.

NAMA's initiatives complement measures introduced by the Minister for Finance in last year's budget, including concessions on stamp duty and Capital Gains Tax and also certainty on the issue of upward only rent reviews.

Given the importance of the property market in terms of Ireland's economic recovery, we would suggest that other avenues should also be explored. The introduction of REITs legislation is one option. The Minister for Finance's statement that he will keep the possibility of introducing a REIT structure under review is welcome. NAMA as a market participant is positive on the subject of REITs because of their potential as an additional monetisation channel for the Irish commercial and residential markets. We have also advocated since our inception extending the recently published Residential Property Price Register to commercial property transactions in terms of sales and leases – this would provide greater transparency.

Despite the reduced global appetite for real estate investment, we are beginning to see movement in the Dublin commercial market as evidenced by increasing buyer enquiries and transactions, reflecting both a desire amongst institutional investors to spread their real estate risk over wider geographic areas and improving sentiment towards Ireland and also the attraction of higher yields at a time when global bond yields are declining.

### **Residential property market**

The resuscitation of the residential property market is an equally intrinsic requirement for sustained economic recovery. Responding to this, last year's Budget introduced specific and time-limited mortgage interest relief measures for first time buyers and other categories of owner occupier buyers in the residential market. For NAMA's part, in May of this year, we launched a deferred payment mortgage initiative as a means of encouraging some potential clients to purchase residential property. On the basis of the lessons learned in the pilot phase, during which residential units with a combined value of €9m were sold, the NAMA Board

has agreed to extend the initiative on a phased basis so that it applies to some 750 houses within our residential property portfolio. In line with this decision, last week we announced the launch of the next phase of the initiative which sees its extension to a further 180 houses in twelve counties.

We do not believe that there is a one-size-fits-all panacea for the problems in the residential market, largely because the factors affecting one segment of the market differ so much from the factors affecting another. Recognising this, in the apartment market, our focus is on renting. Since acquiring the loans, tenants have been secured for about 4,000 previously vacant apartments in Dublin and we are continuing to invest in completing unfinished apartment blocks in areas such as Sandyford in response to the strong rental market in these locations. In total, close to 10,000 apartments and houses within our portfolio are now rented on an annual rent roll of the order of €100 million. We are looking at the option of facilitating the sale of entire blocks of apartments to equity firms which have teamed with property management specialists and which are interested in purchasing apartments on a bulk basis.

Of the 4,000 vacant residential units within our portfolio, a substantial number are close to being made habitable and will shortly be available for sale or rent depending on the detail of the asset disposal and asset management plans that have been agreed with individual debtors and receivers. We are, in particular, working to exploit the synergy existing between our overriding commercial remit and demand for social housing provision in areas in which our debtors and receivers hold vacant properties.

NAMA has now identified approximately 3,800 units for social housing. Approved Housing Bodies have assessed about 2,000 of these units and have confirmed demand for 1,200 of houses and apartments. The first of these will be tenanted in the final quarter of this year under the Social Housing Leasing Initiative. The additional units identified are now being examined by the Housing Bodies. Delivery has been slow and we decided that an innovative approach was required. We have established a Special Purpose Vehicle to acquire and directly lease properties to public entities in an attempt to streamline the process.

As a general observation, as regards the residential property market, we are seeing some signs that the market in Dublin is bottoming out. However, it would not be a surprise if price indices gave mixed signals for the near future at least, with sentiment towards property

oscillating in line with developments in the wider economy and indeed with developments within Europe more generally.

### **Rent Abatements**

I would like to refer briefly to progress in the area of rent abatements on certain commercial leases which is a topic that regularly attracts attention from members of the Oireachtas. NAMA approves requests for rent easement or abatement from its debtors where a tenant demonstrates, first, that the rent payable under their lease is in excess of current market levels and, secondly, that the viability of their business is as a consequence threatened. As of the end of August, we had received 271 rent abatement applications, of which 206 were approved, just four were refused, nine were ineligible as they did not refer to NAMA properties, and the remaining 52 were under active review. Since the start of the year, NAMA has approved cumulative rent reductions to tenants of over €6 million and the total rent savings to date since inception of this initiative equates to approximately €9.7m with a further €3.4m currently under review. There is a guidance note on our website on the matter.

### **Transparency**

Criticisms of NAMA on the grounds of transparency do not, in my view, stand up to serious scrutiny. If you compare NAMA with other commercial State bodies and with those banks which are effectively under State control – I have appended a matrix to this address to illustrate the point - it is clear that NAMA publishes more information on its performance and its activities than any of its peers. No other peer body is required to publish quarterly accounts. None is required to produce an Annual Statement of objectives, activities and resources as we are required to do, under Section 53 of the Act, three months before each financial year. We have been in operation for less than three years and have already been subject to two detailed special reports from the C&AG. In 2012 to date, NAMA has been the subject of over 300 Parliamentary Questions submitted to the Minister for Finance. The Chairman and I appear before this Committee and the Public Accounts Committee whenever asked to do so. Today is our third appearance this year.

The point I wish to make is that I cannot see how we can be any more transparent without breaching our statutory obligations to debtors under Sections 99 and 202 of the Act and by

reference to banking confidentiality and data protection law generally. These obligations are binding on us. Even if this were not the case, however, providing detailed information on debtors and their property would be commercially counterproductive for the taxpayer.

In this respect, NAMA is being subjected to a standard which is not applied elsewhere. There appears to be no similar demand that those banks whose financial performance represents an ongoing exposure for the taxpayer, should be subject to the same degree of transparency as NAMA. The IDA does not reveal details of its discussions with prospective investors in Ireland nor does it spell out the financial details of deals completed. Nor are other commercial state agencies required to disclose commercially sensitive information. To do so would be to undermine their work on behalf of the taxpayer. For some reason, however, there seems to be a view that NAMA should be subject to a commercially disadvantageous regime of disclosure which does not apply to other commercial State agencies or publicly-owned banks.

Chairman, the legislature has set us a commercial mandate under Section 10 of the Act. We consider that we are as transparent as we can be within the constraints imposed by that mandate. In terms of disposing of assets, we are competing with a number of banks in Ireland and elsewhere which are heavily engaged in deleveraging their property loan exposures. Those banks will not be required to disclose commercially sensitive information in the public domain but they would benefit greatly from any similarly sensitive information that NAMA was required to disclose, as indeed would potential purchasers of assets under NAMA's control. The only certain loser in all this would be the taxpayer. I know that many of those who advocate greater transparency by NAMA may not be aware that this would be an unintended consequence of what they propose. For the taxpayer, however, it would be a very real and costly consequence and would run counter to our commercial objective to achieve the best achievable financial return. Unless the legislature changes the law and dictates otherwise, we consider that the interests of the taxpayer should remain our foremost objective.

## **Conclusion**

Before concluding, I would like to refer to the controversy caused by the actions of a former employee of the Agency which have cast a shadow over our work in recent months. We have

recruited over 200 staff in NAMA to date and, as Chief Executive, I know of the excellent work that has been done by them, my colleagues, over the past three years in terms of recovering and enhancing value on behalf of the taxpayer.

I know I speak for everyone at the Agency when I say how angry and disappointed we are at what has happened. There is a real sense of disbelief among my colleagues that the Agency's reputation and its commercial interests could have been put at risk so gratuitously in these circumstances. But there is also a determination that we will not be diverted or distracted from the crucial work that needs to be done over the coming months and years. We are well on the way towards achieving key milestones despite the difficult economic circumstances here and internationally since we came into existence. This is important not just for NAMA but for the State in general in the context of the Troika programme and our return to the sovereign debt markets.

Finally, I would like to publicly recognise and thank all my colleagues, Board and staff for their unstinting dedication in delivering on NAMA's mandate to date and I assure the Committee we will continue to do so to the very best of our abilities. We are part of the solution, not the problem.

Thank you for your time.



## Appendix: Public Accountability Provisions

### NAMA, Commercial State Agencies and Covered Banks

	NAMA	Commercial State Agencies	Covered Banks
<b>Publish Annual Reports</b>	✓	✓	✓
<b>Publish Quarterly Reports</b>	✓		
<b>Publish Half Yearly Reports</b>	✓	Some exceptions	✓
<b>Publish Section 53 Reports (Preview work for following calendar year)</b>	✓		
<b>Subject to PQs</b>	✓	✓	✓
<b>Statutory requirement to appear before Public Accounts Committee</b>	✓		
<b>Statutory requirement to appear before other Oireachtas Committees</b>	✓	✓	
<b>Subject to periodic statutory progress reports</b>	✓		
<b>Subject to C&amp;AG Review</b>	✓		