

**Addresses by Mr. Frank Daly, Chairman and Mr. Brendan  
McDonagh, Chief Executive of the  
National Asset Management Agency to  
*Cork Chamber of Commerce & ACCA Ireland*  
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Thank you for the invitation to speak to you at this morning's business breakfast. It is good to have an opportunity to address you about NAMA and its activities and to update you on the substantial progress that has been made to date. If I had addressed you this time last year, I would have been speaking of what NAMA planned to do or wished to do or hoped to do. Gratifyingly, we have now reached the stage where I can outline the significant body of work done or in progress and some initiatives that are currently in preparation.

### **Progress**

Let me begin by sketching briefly what has been achieved to date. During the last eighteen months or so, there have been four major areas in which we have focused our efforts, namely, securing EU approval, acquiring the portfolio of loans, recruiting staff and engaging with debtors.

EU approval was given at end February 2010. We have now acquired property loans with nominal balances totalling €72.3 billion and, in return, we have paid consideration of €30.5 billion in the form of government-backed securities to the five institutions involved. 95% of this consideration - €29 billion – can be used by the institutions to create liquidity through their repo activities with the ECB and with the market. An additional €3.4 billion may be transferred over the coming months depending on the outcome of litigation and the ongoing engagement with debtors whose loans are considered eligible.

Thirdly, an organisation has had to be built from scratch: over the course of 2010, we recruited over 100 specialists in property, banking, finance, law and other areas to ensure that the agency had the expertise available to it to manage the huge portfolio it had acquired. Staff were recruited, for the most part, nationally and internationally, from the private sector because the skills required tend not to be widely available in the public sector. The NTMA, which provides recruitment and HR services to NAMA, has the flexibility to remunerate in line with market pay rates and we had no choice but to pay those rates if we wanted the expertise a portfolio with an acquisition value of over €30 billion. I should mention that NAMA staff are on fixed purpose, not permanent, contracts and, accordingly, their employment terminates once the agency is wound up or it no longer requires their skillsets. This is expected to happen when NAMA has recovered its cumulative outlays which we estimate will take up to ten years.

Fourthly, we are well advanced in our engagement with the largest debtors and are in the process of engaging with many of the other debtors whose debts will be directly managed by us. I will discuss this further later in this address.

### **Commercial remit**

NAMA is, first and foremost, a commercial entity and its main focus is to recover for the taxpayer what it has paid for acquired assets plus any additional project funding, working capital and other costs. You might consider this to be an obvious point to make but its implications are far-reaching and not fully appreciated. What NAMA is not, as some commentators seem to think it should be, is some form of national financial freezer into which troubled loans can be deposited in the hope of future cryogenic salvation. Nor is NAMA a resting home to enable debtors to take time out from the consequences of their borrowing. Depending on your views and interests, you may well consider both of those to be worthy objectives but you do not need to set up a commercially-focused agency to achieve them. I would add that both approaches imply that a third party – presumably the taxpayer – should pay for the consequences of the last decade of injudicious lending. The issues have to be faced up to today.

I make these points because NAMA was established against a background of widespread concern that NAMA would overpay for its acquired bank assets and that the taxpayer would lose tens of billions in the process starting on day one. One of our major challenges has been to deal with the diverse and conflicting array of expectations that have been placed upon NAMA by various interests and commentators. Our focus has been firmly fixed on the core commercial remit that has been handed to us by the legislature and, in that context, it remains our overriding objective that NAMA should break even in as short a timeframe as is reasonably practicable.

Needless to say, this does not mean that we force our debtors to engage in a precipitative fire sale of assets, a strategy which would be totally counter-productive and which may realise only a fraction of what the assets are intrinsically worth. Nor, on the other hand, do we sit around in the hope that some fine day the current market hangover will cure itself. There is a balance to be struck between these two strategies. We believe that, as a significant player in the property market, it is part of our responsibility to generate the transactions which will help to lift it out of its current stagnancy. That involves, among other things, ensuring that property is available, not at the aspirational values that have prevailed during the boom, but at prices that purchasers are actually willing to pay. Given the size of our portfolio of property loans and our insistence that debtors make significant debt repayments over the next two years, supply is not going to be a major source of concern. Demand is a very different matter.

There are two major challenges to be addressed in terms of the demand side. In order to commit themselves, purchasers, not unreasonably, need some comfort that prices are at, or close to, bottom and that they will not be faced with prolonged spells of negative equity. Secondly, they need funding. The banks, traumatised by the scale of their losses on commercial and residential property, are currently seeking to diversify their sectoral exposure away from property; they are also subject to deleveraging commitments to the Financial Regulator. Some of the initiatives which we are currently examining are designed to address

both of these challenges as they manifest themselves for commercial and residential property.

### **Commercial**

To address first the challenges posed by the commercial property market. Commercial property in Ireland is down about 60% from its peak levels at the end of 2007 and there is tentative evidence to suggest that we may now be close to the bottom of the cycle. The recent Central Bank PCAR2 stress-testing exercise on bank assets included a baseline scenario which envisaged a slight fall in commercial property prices in 2011 followed by slight increases in each of 2012 and 2013. Taking account of the long-term relationship between commercial property prices and economic growth, we know that, for much of the past decade, prices had accelerated well ahead of GDP growth and that they have now corrected to levels where we would have expected them to be had the price bubble not taken place. There are a number of other indicators which suggest a stabilisation of prices, including the reversion of office and retail yields back to pre-bubble levels.

While commercial property will be well supported by the strong performance of certain sectors of the economy, domestic investors will continue to be wary given the fact that many of them are already over-exposed to Irish commercial property. Foreign investor capital has hardly featured in the last ten years in the Irish commercial property market and in 2010 only about €75m was invested by foreign investors – a welcome development but hardly significant. The peak in terms of commercial investment transactions was €3 billion in 2006 – all involving domestic investors and a lifetime ago in terms of where the property market and the banking system are now. An inflow of capital from abroad will be necessary but even in the case of foreign investors, however, there are significant obstacles to attracting investment at present, not least the current economic and fiscal uncertainty associated with Ireland and the limited availability of international bank funding. Uncertainty about possible changes to existing contracts with respect to rent reviews is also a significant issue for investors.

Against that background, NAMA was recently asked by the Minister for Finance to explore ways in which it could contribute to getting the property market moving again. Among the key elements of any functioning market are supply, demand and liquidity. Supply is clearly not an issue in current circumstances. Nor is demand: after the significant price corrections of recent years, there is considerable interest from investors, mainly foreign in purchasing Irish commercial property. Leaving aside a minority of potential investors who are interested only in picking up loans or property at rock bottom fire sale prices with the idea of making a quick profit and making a quick exit, we have seen a lot of interest from professional investors who have a more long-term performance horizon in mind and who are interested in acquiring strong income-producing assets which will provide a steady return over time.

The key constraint, as we see it, is neither supply nor demand but liquidity. The current reality is that banks generally – and not just those based in Ireland - are reluctant to underwrite 80%-90% of the lending to a single venture, particularly if it involves property and particularly if the funding requirement is substantial. We are looking at ways in which we can facilitate the provision of debt finance to purchasers of commercial property which is either under the control of NAMA debtors or of receivers engaged either directly or indirectly by us. This type of financing (known as stapled debt or vendor financing) is a well-established method used by financial institutions and investors in cases where liquidity would not otherwise be available. NAMA's main objectives would be to generate sales transactions which would not otherwise take place and to attract new equity which will deleverage its debt exposure.

In terms of the entities to which we would make stapled debt available, clearly we would have to be satisfied as to their track record, reputation and capacity to repay. They would have to be in a position to inject equity capital of 25% - 30% upfront. This would result in an immediate pay down of NAMA debt and would create a performing loan. It is likely that the entities best placed to do so would include pension funds, insurance companies, private equity firms and sovereign wealth funds. The assets involved are likely to be investment assets which are

well-tenanted and income-producing, for instance, large office buildings, shopping centres and other retail and industrial properties; it is rare for stapled debt to be used for the acquisition of assets which are not income-producing, such as land or buildings which are either partially completed or completed but vacant. However, we would not rule this out in exceptional cases.

To illustrate how stapled financing might work in practice, let us take the case of an investor who wishes to buy a property asset from a NAMA debtor or receiver but who cannot source any funding or sufficient funding from banks even though he is willing to contribute 30% equity. Assuming a purchase price of €100m, the investor would pay €30m upfront to NAMA and then enter into a loan agreement for the residual €70m which would see him repaying the principal on an amortising basis to NAMA over a five/seven year horizon. The original debtor's outstanding obligations to NAMA would fall by €100m. The net impact for NAMA would be positive in a number of respects. It would have generated a transaction in the market which would not otherwise have taken place. It would have replaced a loan of €100m with what is likely to have been a weaker debtor with a performing loan of €70m with a stronger debtor, thereby reducing and diversifying its credit risk. It would also have a cash receipt of €30m which it could then use to reduce its own debt. In reality, it does not require any new money from NAMA; it is a recycling of existing debt but achieving a significant cash payment upfront.

## **Residential**

Similar initiatives are being considered in the context of the residential market. The outlook for residential property is more clouded than for the commercial market, not least because it is more closely linked with the overall outlook for employment, net pay and interest rates. One would expect that banks will adopt a more restrictive approach to LTV (loan-to-value) ratios and will also take a conservative approach in assessing debt servicing capacity and affordability. Having said that, based on the volume of enquiries that we receive, it is clear to

us that there is substantial interest from prospective individual buyers in residential property.

As I mentioned above, a key impediment to residential sales in the current market is a concern on the part of many debtors that prices could fall further and that, after purchasing, they could therefore find themselves in a position of negative equity for a long time to come. This concern is entirely understandable and it is one that we are looking to address in the initiatives that we are currently preparing. We have had preliminary discussions with the two 'pillar' banks (AIB and BOI) and we expect to have a more detailed engagement with them over the coming weeks. Our aim would be to unveil a product with the two banks in the early autumn which meets a number of key criteria: one which generates sales of property controlled either by NAMA debtors or by receivers yet provides an incentive to purchasers to invest at current prices in the knowledge that there will be a mechanism in place which will offer them protection against the risk of negative equity in the event that prices should continue to fall.

### **Debtors**

NAMA's impact on the property market over the next year or two will be felt, not only through initiatives such as those I have just outlined, but also through our engagement with debtors and through the receivership process. Debtors are disposing of property as part of an agreed strategy in order to reduce their debt and we expect that this will provide significant momentum to the property market this year and into 2012 and 2013. We have approved the sale of an estimated €3.3 billion in property assets since 1 March 2010, much of it controlled by Irish-based debtors with properties in the UK. Not all of this will find its way directly into NAMA coffers: some of the proceeds are used to pay down debts to participating institutions or to non-NAMA banks where they had co-lent on developments. We have also approved close to €800m in new money advances to enable projects which are commercially viable to be completed or otherwise to protect and enhance its value.

At this stage, we have acquired the property loans of about 850 debtors which aggregate to a nominal €72.3 billion. From our perspective, these debtors fall into three groups.

The first group comprises the thirty largest debtors whose loans, totalling €27 billion, were transferred as part of the first and second tranches. We are at an advanced stage with them. Their business plans have been extensively reviewed and arising from that, in the majority of cases, we have come to agreements which encompass schedules of asset disposals and debt repayment. The majority have either signed or are close to signing memoranda of understanding.

The second group of debtors comprises the next 150 debtors whose combined debt amounts to about €35 billion. The debtors in this group have either submitted draft business plans or are in the process of doing so. The aim is to have business plans reviewed and appropriate strategies in place by year-end (debt repayment/asset disposal or enforcement as the case may be).

These debtors and the debtors in the first group – about 180 in total €62 billion - will be directly managed by NAMA staff and, to date, we have approved plans (including enforcement) for 33 of these debtors.

In the case of the third group of debtors (about 670 debtors with outstanding debt of about €12 billion), their loans will be managed by the participating institutions under delegated authority from NAMA. Each of them will be required to submit their business plans to their respective lending institutions. The institutions will review the plans and make recommendations as to their viability and NAMA will then determine appropriate strategies in each case. This process has already begun and we expect that, by end-August, over 200 cases will have been determined. It is important that I put on record here today that there are about 500 people in the participating institutions who are helping NAMA to resolve the issues and I would like to thank those people publicly; they, like NAMA staff, are working hard to try and resolve the situation in the national interest.



## **Openness and transparency**

Given that hardly a week goes by with some comment or other being made about the alleged secretiveness of NAMA, I think it may be appropriate to talk briefly about the whole area of openness and transparency as it relates to NAMA and to set out the current legal constraints under which we operate.

Members of the NAMA Board and NAMA officers are prohibited under Section 202 of the Act from disclosing confidential information. Confidential information is specifically defined to include information relating to debtors. Furthermore, Section 99 of the Act provides that, on acquisition of a loan, NAMA takes over the obligations of the participating institution under the loan, one of which is the contractual duty of confidentiality which the debtor enjoyed while still a customer of the participating institution. For these reasons, we consider that we are bound not to disclose details about debtors as to do so would leave us open to litigation. Information about individual debtors or guarantors is protected against disclosure by the Data Protection Acts with which NAMA must comply as a data controller.

A change in the law would therefore be required to enable NAMA to disclose information about a debtor. However, even if the law were to be changed, there is still no certainty that the amended legislation would survive constitutional challenge if a debtor initiated proceedings to protect what he would perceive to be his right to confidentiality and to privacy.

That is the current legal position. If the legislature wishes to change the law, NAMA will, of course, abide by whatever revised arrangements are put in place. However, as the law stands we as a public body fully adhere and respect the law.

One additional important point should be made. Separate to the debtor's right to confidentiality of his affairs, the disclosure of information about the business interests of a debtor would likely place NAMA at a commercial disadvantage. For

instance, information about the consideration paid by NAMA for a debtor's loans could be very useful to an external party interested in purchasing or refinancing the loans or buying some or all of the assets securing the loans. This would have the effect of compromising NAMA's ability to obtain the best achievable financial return to the State, as it is required to do under Section 10 of the Act.

We are not therefore in a position to have discussions with potential investors or with others about assets which are under the control of debtors who are meeting their repayment obligations or are still negotiating with us on their business plans. This is no different from the reasonable expectation that any of us might have that our bank would not enter into negotiations with a third party about the sale of our property unless we were in serious default on our obligations. However, that is not to say that we cannot facilitate buyers and debtors who share a common commercial objective.

I should add, however, that many of the disclosure constraints that apply to property assets under the control of debtors do not apply to property assets that are controlled by receivers engaged directly or indirectly by NAMA. Under an initiative currently in preparation, NAMA will shortly include on its website a database of properties which are under the control of receivers appointed to enforce against NAMA debtors (appointed either directly by NAMA or by participating institutions working on its behalf). This will provide a single source of information for investors on NAMA assets which are for sale and it will be updated on a very regular basis. It is expected to be up-and-running within a matter of weeks.

### **Consultation**

NAMA is constantly approached by various interest groups who want to engage with us – some are worthy, some may make sense at a future time and some are just lobbyists. The Board of NAMA has to be conscious of section 221 of the NAMA Act, whereby the offence of lobbying NAMA could result in a fine of up to

€1,000 or imprisonment of up to six months. It is also an offence for a NAMA officer not to report such lobbying to the Garda Síochána.

However, I wish to announce today that NAMA will shortly be writing to the CCABI with a view to forming a small NAMA liaison group which will include representatives of all the accounting bodies which will engage with NAMA on general, rather than individual, issues of mutual interest. This should generate a better understanding amongst the wider accounting profession, whether in practice or in industry, which needs to engage with NAMA either as a professional advisor to it or to a NAMA debtor. I stress that it is of utmost importance to NAMA and to the CCABI that those suggested by the CCABI to be part of the NAMA liaison group are in no way compromised by virtue of their position as NAMA debtors or otherwise.

## **Conclusion**

We in NAMA are now very much focused on our engagement with debtors and I am pleased to say that that engagement to date has, for the most part, been constructive. Most debtors have faced up to the scale of their losses, realise that there is a bumpy road ahead and are willing to make the necessary sacrifices and work their way out of difficulty and we want to help them to survive.

Regrettably, in a total of 57 cases to date, we have been left with no choice but to enforce against debtors or to approve enforcement action by the participating institutions. In these cases, debtors have been unable to demonstrate long-term viability because of the unmanageable scale of their liabilities by reference to their financial or managerial resources.

In a minority of cases, business difficulties have been compounded by a failure to engage fully with the process. A number of debtors appear to be trapped in the old mindset whereby it is they and not the lender who sets the terms on which business is done. It is akin to falling overboard and then complaining to your rescuer about the colour of the lifebuoy that he is about to throw in your

direction. Some of them have difficulty surrendering the grandiose lifestyles that they seem to regard as their continued entitlement, even if the rest of us are expected to pay for it through higher taxes and cuts to services in our schools and hospitals. We have and will enforce against such debtors. If the taxpayer is being asked to keep you in business, it would seem to be a matter of basic common sense that you do not seek to maintain a lifestyle that is beyond your means. The taxpayer does not owe you a living and certainly does not owe you an unrealistic lifestyle if you are not in a position to repay your debts.

As a final word, I urge debtors to engage with NAMA, we are realistic, but you have to meet us halfway. We want to try and achieve a consensual workout; it is the optimal way to find a solution to a very difficult problem in the interest of all our citizens.

Ladies and Gentlemen, thank you again for the invitation to address you this morning and I very much hope that you found it useful.