

Opening Statement by
Mr. Brendan McDonagh, Chief Executive of NAMA, to the
Joint Committee on Finance, Public Expenditure and Reform
Friday, 9th September 2011

Chairman, Deputies and Senators,

I am glad to report that, since the Chairman and I last appeared before an Oireachtas Committee in January of this year, significant progress has been made in terms of setting the Agency on its way. We have now recruited over 190 staff with the specialist skills and experience required to manage a portfolio of property loans with balances in excess of €72 billion. We expect to have our full complement of 200 staff by the end of the year.

By and large, the loan acquisitions have been completed apart from some €2.6 billion in loans which are the subject of consultation with the debtors involved. We asked them to make written representations to us on the eligibility of their loans and on the potential impact that NAMA acquisition might have on their businesses. This process is now complete. The NAMA Board has reviewed the submissions received and yesterday made decisions, based on its discretion under Section 84 of the NAMA Act, on which of the residual loans were to be acquired. We will be writing, over the next week or so, to those debtors who made representations to us to let them know of the Board's decision.

This means that our attention is now increasingly focused on dealing with the 850 debtors whose loans we have already acquired. Our intention is to manage the largest 180 of these debtors directly (their debts total about €62 billion). The other debtors – accounting for about €10 billion in loans - are being managed, under delegated authority from NAMA, by some 500 staff in the participating institutions. NAMA will pay a fee of up to 10 basis points or 0.1%, equivalent to €74m per annum, to these institutions. Most debtors are co-operating and they appreciate that, if they are to survive and work their way through their predicaments, they must engage meaningfully with us. This will require reaching agreement on asset

disposal schedules and debt repayment targets, securing unencumbered assets and reversing asset transfers to relatives.

In the case of a second group of debtors, their financial circumstances are such that they have no prospect of achieving viability on any reasonable timescale nor do they have the ambition or wherewithal to deliver. In cases such as this, we have already enforced or will be enforcing against debtors.

There is a third, small group of debtors who may well be inherently viable and with whom we could work but who are not co-operating adequately with the process and who appear to believe that, after all that has happened, the taxpayer somehow still owes them a living. We have been as fair, reasonable and patient with these people as any court could possibly expect us to be but, in the circumstances, it is likely that we will be left with no option but to instigate additional enforcement actions before the year is out. Above all else, we will act vigorously to protect the interests of taxpayers and, in that context, the self-indulgent behaviour of a few has no place in resolving the national crisis with which, collectively, we are grappling.

Credit issues

By the end of the year, we expect to have completed our review of the business plans of the largest 180 debtors and we expect also that the participating institutions, acting under our supervision, will have reviewed a substantial number of the business plans of the other 670 debtors – our expectation is that over 90% of the portfolio (by value) will have been evaluated. It has been suggested that, because we have not reached the stage of final legally-binding agreements with debtors, we are somehow not in a position to deal with them. This is not the case: we are currently processing about 400 credit decisions every month. These include debtor requests such as applications for working or development capital, lease approvals and sales approvals.

Generally speaking, once a credit application comes into NAMA, a decision is made within one week. I point this out because increasingly we are hearing from members of the public – and you may have heard of similar cases from your constituents - that developers are telling them that sales approval applications are being held up by NAMA. Invariably, when we investigate the individual cases, we find that the developer concerned has not actually submitted the application to NAMA. The accusation that NAMA is bureaucratic and slow in

dealing with these approvals is unfair and unwarranted but, unfortunately, in the current environment, when it comes to NAMA, many seem to feel that they have no obligation to check the facts before making the accusation.

To date, we have approved the sale of an estimated €4.6 billion in property assets held by debtors and the proceeds are being used to pay down debts either to us or to non-NAMA banks which had co-lent on developments. We have also approved over €900m in new money advances which will enable unfinished developments to be completed or which will otherwise enhance the value of assets. Regrettably, we have also had to approve the appointment of receivers in 84 cases – it is important to note that a receiver may be appointed to some debtor entities within a connection but not necessarily to a whole connection.

Property market

In terms of what we need to do, there are formidable challenges ahead. 60% of the loans we have acquired are secured by commercial or residential property and 40% by undeveloped land or by properties under development. Over 90% of the loans are secured by property in Ireland and the UK, with almost €18 billion of underlying property assets in Ireland. As the Irish economy regains momentum over the coming years and as investor confidence grows, we expect that demand for commercial property will improve. There is, of course, over-capacity in all commercial sectors at the moment but there are significant sectoral and regional variations. For instance, vacancy rates for city centre office space in Dublin are falling and with no completions expected in the near term and evidence of strong demand from technology companies and from new multinational companies, the outlook for this sector is quite positive. On the other hand, a pick-up in activity in the retail and industrial sectors is heavily dependent on a general resurgence of economic activity.

The outlook for residential property in Ireland depends very much on location and on local supply/demand conditions. You may be aware that we have recently begun to publish on our website a list of properties which are under the control of receivers appointed by us and which are currently for sale or will be offered for sale shortly. There has been much interest from the public (over 100,000 downloads) and in particular from younger people who are keen to use the current correction in property prices to purchase their own homes. It suggests to us that there is substantial latent demand for residential property in the right location and at the right price.

One of the constraints operating at the moment is the fear on the part of many prospective purchasers that prices may have further to fall. We were asked by the Minister for Finance to suggest initiatives which could address this issue and we are currently in discussion with a number of Government Departments about the workings and potential impact of a residential mortgage proposal which we are developing with the banks. We are also working on another initiative to facilitate the sale of commercial property through the provision of stapled debt financing.

As for the stock of undeveloped land which secures 40% of our loans, most of it by value is within, or close to, major centres of population and will be developed in time, though not for the foreseeable future. Some will not be developed and will revert to agricultural use. With milk production quotas to be phased out from 2015, I note that the strategic blueprint for the agriculture and food sector published last year set a target of 50% growth in milk production over the next decade. The much-improved outlook for agriculture over the medium-term is therefore likely to create solid demand for agricultural land.

As 40% of the assets are outside Ireland, for the coming year or two, this represents our best prospect of generating the sales that our debtors need in order to meet their repayment targets. A significant proportion of the underlying property is located in the south-east of England and this is attracting strong interest from international investors. Some of this interest is from investors who expect to pick up property at fire sale prices and in off-market transactions without any element of competitive bidding. We are not interested in doing business on that basis. Whether we sell loans or approve the sale of property, our interest is best served by ensuring that we achieve the best attainable price and that requires the participation of a number of genuine bidders. We are currently in dialogue with quite a number of these and, over the coming months, we expect that some substantial transactions currently in the pipeline will proceed to sale and that the proceeds will help to reduce our debt and that of some of our debtors.

Conclusion

NAMA is one of a number of responses to the economic and financial crises which Ireland has had to confront in recent years. It is unrealistic to expect that these crises can be resolved swiftly. What we can say, across a number of fronts – the Exchequer finances, the banking

system, NAMA – is that the crises are being addressed in a considered and comprehensive manner, as has been acknowledged by the EU, the ECB, the IMF and the OECD.

We, in NAMA, will play our part in an energetic and committed manner. We will also be creative and resourceful in our approach because to succeed, we have no choice but to be creative and resourceful. We are not merely a debt collection agency. Yes, we are in the business of recovering for the taxpayer what the taxpayer is due and we make no apologies for that. I don't think the taxpayer would be too impressed if we told our debtors that they could repay us at a time of their own choosing. A balance has to be struck to meet competing objectives set by NAMA and set for NAMA.

However, if we were to take the view that our job was only to collect debt, we would indeed fail. With so much property indirectly under our stewardship, we are acutely aware of the potential impact of our decisions on businesses and communities. Our job is to strike the appropriate balance between meeting our commercial mandate and accommodating also various public and social objectives. Our door is open to all of those who may have fresh or innovative ideas or those with capital to deploy. It is our intention that NAMA will be a creative and dynamic force in the property market and, more generally, that it will contribute significantly to the economic resurgence of Ireland in the years ahead.

In a brief address such as this, I can only outline some of the key points that I think may be of interest to you. During the course of our discussion today, no doubt there will be additional points or concerns that you may wish to raise with us and we welcome the opportunity to respond.