NAMA response to a report on its performance commissioned by an ex-debtor

The report on NAMA which was commissioned by an ex-debtor and produced by Jim Power Economics and which was given extensive coverage in a weekend newspaper is a seriously inadequate piece of research. It lacks rigour and objectivity, is riddled with errors and undermined by unrealistic or invalid assumptions.

- The main premise underlying the report's analysis assumes, unrealistically, that NAMA could have held the loans for seven years without generating any income from asset sales. It fails to acknowledge the Troika's requirement that NAMA redeem 25% (€7.5 billion) of its senior debt by end-2013, a target which could not have been achieved unless NAMA debtors had sold some of the assets under their control.

- Ireland's debt rose from €50 billion at end-2007 to over €200 billion during the financial crisis. Ireland's credit rating fell from AAA to sub-investment grade and Ireland ended up in a Troika programme. The report fails to acknowledge the fact that NAMA's senior Government-guaranteed debt of €30 billion represented a contingent liability for Irish taxpayers and that it was a major concern for investors and for those lending to Ireland, including the Troika. In that context, it is unrealistic and naïve in the extreme to suggest that debtors and receivers could have withheld all assets from sale until 2017 and that NAMA did not have to reduce its guaranteed debt from an early stage.

- The report fails to acknowledge that NAMA is required by law to carry out its work expeditiously. Had NAMA debtors and receivers not sold Irish assets, NAMA would have been accused of hoarding and of preventing market recovery. It also fails to take account of the impact of NAMA sales in generating recovery in the Irish property market.

- The report fails to take into account the major decline in the performance of the Irish economy in the period between 2008 and 2013, fails to take account of the state of the public finances and fails to note Ireland's entry into the Troika programme, all of which stemmed from poor lending by financial institutions and poor debtor borrowing decisions made between 2003 and 2008.

The other major claims that appear in the report are assessed below.

Claim:
In the context of the recovery of both the Irish and global property markets a return (surplus) of (maximum) €2.3bn on an investment of €31.8bn seems significantly lighter than would be expected.

In comparison to returns being obtained from other investment vehicles this is alarmingly low and may indicate gross mismanagement in its day to day operations.

Response

No financially informed analysis would benchmark NAMA's performance by reference to global equity indices. NAMA did not have €31.8 billion in cash to invest in global stock markets. NAMA is not an investment vehicle with discretion to buy and sell across a range of asset classes. Its portfolio comprised only one asset class and it had no discretion over the assets that it acquired or the prices paid for them – this was determined by the terms of the EU's State Aid approval. It was also required by law to carry out its work expeditiously which meant that it did not have the option of waiting indefinitely until market prices staged a full recovery.

The report's analysis fails to take into account the overpayment or State Aid element of €5.6 billion incorporated in the NAMA acquisition price. In addition, NAMA's acquired loans were valued by reference to a property collateral valuation date of 30 November 2009 and, as a result, NAMA had to absorb losses arising from the impact of the 25%-30% decline in Irish property values which took place between 30 November 2009 and the end of 2013.

NAMA was a distressed buyer and no private investor would have transacted on the same basis: a private investor would have paid only on the basis of the market price at, or close to, the actual dates of the loan transfers in 2010 and 2011. This would have reduced the acquisition price by another €4.5 billion and therefore, a private investor would have paid €10 billion less (i.e. about €22 billion) for a loan portfolio for which NAMA paid €32 billion. Indeed, at the outset, the greater concern for many observers was the fear that NAMA may have paid too much for the assets and that taxpayers could then have been left with a serious deficit.

To suggest, therefore, that a potential surplus of €2.3 billion represents a poor return is unfair and uninformed but very much in line with the lack of rigour and objectivity evident in this report. The suggestion of “gross mismanagement” is also unsupported and cannot be deduced from unsubstantiated back-of-the-envelope calculations.

Claim

It would appear NAMA has been aiming to recover its initial investment of €31.8bn and not the €74.2bn of debt originally owed to the 5 main banks. As such, in excess of €40bn has been left behind by NAMA at the expense of the tax payer.

Response

This is untrue.

NAMA has sought to recover as much of the €74 billion par debt as is possible and, taking into account cashflows generated to date in addition to residual loans, cash balances and balance sheet assets, it expects to generate at least €45 billion over its lifetime. This includes about €1 billion of unencumbered assets and transfer reversals which NAMA negotiated from debtors so as to maximise debt repayment.

However, much of the original par debt that NAMA acquired was based on the property bubble prices which prevailed for much of the 2003-2007 period and was therefore never realistically recoverable. By suggesting that in excess of €40 billion “has been left behind”, the report seems to suggest that the full €74 billion was recoverable on the basis that the underlying properties would again be worth €74 billion now. By implication, there was no banking crisis and no action should have been taken by the Government of the day as ultimately all of this lending would have resolved itself. This is a novel and somewhat perverse attempt at rewriting the history of the past decade.

Claim

The report lists some sales transactions where, it claims, properties were sold by NAMA and subsequently re-sold by the purchasers within a short period of time. It claims that, on average, these show an average uplift of 46.69% from the price at which NAMA sold the asset to the price achieved by the purchaser on re-sale.

Response

The analysis is flawed for many reasons:

1. Property indices are misused. Indices relevant to only part of the portfolio are applied to the entire portfolio to give a misleading estimate of potential price appreciation.
2. The analysis applies indices to all properties in each sub-portfolio on the mistaken assumption that they are all prime properties. No account is taken of asset quality or regional location.
3. The analysis of 11 properties includes two properties which never had any connection to NAMA – they account for 15% by value of the sample.
4. The analysis selectively and disingenuously focuses on a small number of assets which were sold at an early stage in the cycle; it fails to point out that the bulk of the Irish assets were sold during the period 2014-2016 when market recovery was well advanced. Certain assets were sold early in the cycle to drive market recovery and to attract international capital willing to invest in Ireland.
5. The analysis fails to account for any asset management initiatives or capital expenditure funded by the purchasers in advance of onwards sales of assets.
6. In some cases, the par debt on an asset was less than the reported secondary sales price and NAMA therefore could not have benefited fully from any recovery in asset values seen later in the recovery. In some of the examples identified, the assets were held in non-recourse vehicles and NAMA had limited scope to benefit from price appreciation.
7. In one case, the portfolio of assets sold by NAMA was not the same as the portfolio later sold by the purchaser i.e. the second portfolio included additional assets and therefore direct comparison is invalid.

Claim:

NAMA underpaid for its loans, based on 'subjective' property valuations.

Response:

This is also untrue.

NAMA did not set the property valuations. Loan valuations were set through a bespoke valuation methodology approved in advance by the European Commission. For each property, a valuation was initially provided by a professional valuer commissioned by the relevant participating institution. Each valuation submitted by the financial institution to NAMA was individually valued and reviewed by a second firm of independent valuers appointed by NAMA from its own property valuation panel.

During the valuation process, over 10,500 property valuations were submitted by the institutions and reviewed by the independent NAMA panel. In 88% of cases by number, the NAMA panel valuers accepted the valuations initially submitted by the participating institutions. In 12% of cases, the reviewing valuer from NAMA's review panel disputed the banks' valuation. In these cases, NAMA referred the valuation to a third independent valuer and this third valuation was the one that NAMA accepted as final, regardless of the views of its own valuer.

The process was subject to extensive auditing, including audits by KPMG, in its role as the NAMA Audit Co-ordinator to the loan valuation and acquisition process and by Ernst & Young and PwC on behalf of the Central Bank and the European Commission. Any suggestion that the NAMA valaution process resulted in a systematic undervaluation of acquired loans is thoroughly disproved by the fact that NAMA subsequently had to take a cumulative impairment provision of €4 billion on the loans, including an impairment provision of €1.5 billion in its first year of operation.

Claim:
NAMA undermined the ability of the development community to adequately manage, fund and develop their property assets.

Response:
Contrary to this claim, NAMA has been working well with a majority (over 66%) of cooperative residential developers. For a minority of debtors, it proved impossible to develop a business relationship either because they refused to cooperate or because they lacked the expertise to manage the properties for which they had borrowed.

It is a matter of fact that the difficulties of the development sector were caused, not by NAMA, but by the excessive borrowing which took place over the 2003-2007 period. Prices paid for development land were often grossly excessive which meant that development was no longer commercially viable as sales prices fell from 2008 onwards.

The report goes on to claim that NAMA was the cause of the housing crisis allegedly "because the actions of NAMA have resulted in a situation where there are not enough viable developers to satisfy housing demand". This is nonsense. NAMA debtors and receivers control only about 24% of residential development land in the Greater Dublin area and accordingly NAMA's influence over new supply is limited.

In any event, NAMA is working with many committed residential developers who have been, and are, making major contributions to residential delivery. However, as any well informed commentator will know, house-building was not commercially viable (the cost of building houses exceeded sales prices) over the period from 2008 to 2013 and only began to become viable again in 2014 as sales prices rose. It is also the case that the shortage of new housing is attributable to a range of causes.

The report ignores the fact that NAMA financed the completion of a number of partially completed office developments, played a pivotal role in the development of the Dublin Docklands SDZ, remediated numerous unfinished estates and poorly-built apartment schemes and funded, and continues to fund, commercially viable residential development.

The report contradicts itself by blaming NAMA for an alleged failure to fund housing when it was not commercially viable to do so but questions NAMA's funding of residential delivery now that it has become commercially viable.

The report claims that developers who are not receiving funding from NAMA are finding it difficult to source affordable development credit. This is factually not the case as is clear from the success of Cairn Homes and of other professionally-managed developers and new investors in attracting development capital to build new housing.

Claim

The report refers to "the loss of approx. €460m from not acquiring discounted junior bonds at a time when NAMA was already predicting a surplus".

Response

The report writer appears to be unaware that NAMA is not in a position to purchase its subordinated bonds as long as the contingent liability relating to the senior debt remains outstanding. This was a condition of EU approval of the NAMA scheme in February 2010.