Address by Mr. Frank Daly, Chairman of NAMA, to the
ACCA Ireland Chairman's Lunch, Limerick, 22 March 2019

I was appointed Chairman of NAMA by the then Minister for Finance, the late Brian Lenihan, in December 2009. NAMA was mandated by the Oireachtas to deal expeditiously with an acquired loan portfolio which had a face value of €74.4 billion but which was considered to be worth only €26.2 billion at acquisition. In total, NAMA paid the participating institutions €31.8 billion for the portfolio, including an over-payment of €5.6 billion which was authorised by the EU Commission under State Aid rules. Since 2010, NAMA's main commercial objective has been to recover as much cash as possible for taxpayers from its acquired loan portfolio. We have also pursued a number of other ancillary objectives which have had positive social and economic benefits.

I do not propose to revisit the debates which took place ten years ago as to what might have been the best approach to resolving the deep crisis which caused the collapse of the Irish property and banking sectors after 2007. As usually happens when there is severe market failure, responsibility for finding solutions falls back on the State. As the State had limited existing expertise in banking or property, it had to develop from scratch, and urgently, a solution that would deal effectively with the crisis. There were some international precedents for an agency such as NAMA but none that had to deal with a crisis of this scale, relative to the size of the national economy.

The NAMA initiative was an innovative and courageous response to one aspect of the crisis, namely, the pressing need to deal with the commercial property loans on bank balance sheets. It was not, nor was it ever intended to be, a solution for other troubled segments of their balance sheets, including mortgage and SME lending. The fact that now, ten years on, some banks are still working to reduce their non-performing loan portfolios suggests that they may have struggled if they had also been left with the €74.4 billion loan portfolio which NAMA acquired from them in 2010 and 2011.

Redeem debt

An absolute imperative from the beginning was to recover the €30 billion in senior debt that we issued to pay for the acquired loans. Otherwise, that liability would have fallen on taxpayers. We had to try to stimulate activity in the Irish market in order to facilitate its recovery and to encourage investors to buy Irish assets in order, ultimately, to remove that €30 billion contingent liability as a potential burden on current and future taxpayers.

It has been suggested that we sold assets too quickly but the reality is that there was no certainty that the more benign market conditions and strong investor interest which emerged in 2013 and 2014 would be sustained. Given our enormous exposure to the Irish property market, it would have been highly irresponsible to have gambled on the possibility of a prolonged recovery. If we had failed to take advantage of the improved conditions and we were now left with €10 billion - €15 billion of NAMA senior debt still hanging over us, I doubt if taxpayers would be very impressed. In fact, I would argue that NAMA's disposal activity in 2013 and subsequent years was itself a major factor in the prolonged market recovery which has been sustained over the past six years.

In an ideal world, an asset management agency might have taken a more leisurely approach to loan and asset disposal than was adopted by NAMA. But we had to operate in conditions which were far from ideal and under constraints which were created by the scale of Ireland's unwanted exposure to property risk and by the implications of our activity for Ireland as a borrower on the international debt markets, for the Irish economy and for the Irish property market. We did not, and could not have, operated in a vacuum.

Redeeming NAMA's senior debt expeditiously had other collateral benefits. The progress that was made in reducing the senior debt by two-thirds (€20 billion) between 2014 and 2016 was a factor in restoring Ireland's hard-won reputation in the international debt markets and in stabilising and reducing the funding cost of Ireland's debt. It also played a part in convincing international investors that Ireland was on an accelerated and sustained path to recovery.

Some of you will recall the widely-aired forecasts by commentators during the early years of NAMA that it would lose billions over its lifetime. Such pessimism was perhaps understandable given the extraordinary and calamitous decline in market conditions which began in 2007 and continued for another six years. As of today, however, we have repaid all of our senior debt - the final tranche was paid in 2017, three years ahead of schedule. We have repaid about a third of our subordinated debt and we expect that the rest of it will be repaid within a year. And we currently project that we will return a surplus of some €3.5 billion to the Exchequer in 2020 and 2021.

Ancillary objectives

In order to extract best value from those of our loans which are secured by development sites, we have funded the delivery of about **10,000** houses and apartments since 2014. In addition, there is a pipeline of sites with a delivery capacity of some **30,000** units which we aim to bring to the point at which they are shovel-ready for development: **7,800** of these are either under construction or have secured planning permission; sites with a delivery capacity of another **7,200** units are either in the planning system or are expected to be within twelve months; we are also funding pre-planning and feasibility work on other sites which are estimated to have a delivery capacity of over **15,000** units.

It is unlikely that the construction of the majority of these units will be funded by NAMA. This is in part because we intend to wind down our activities over the next two years but in part also because we consider that the market has now recovered sufficiently to enable this housing to be developed through private funding. Our aim is to enhance the value of the underlying sites as much as possible through securing optimal planning approval and through other asset management initiatives; in that way, we will look to optimise the financial return without incurring development risk.

Among the most significant of the residual assets securing our loans are two sites which are located in the Poolbeg West SDZ in Dublin. This area has potential to provide up to 3,500 residential units and 860,000 sq. ft. of commercial development as well as school sites and community space. In conjunction with the receiver, NAMA has been working actively on a strategy to ensure that this site is developed as soon as is commercially feasible and, in that context, we are hopeful that An Bord Pleanála's decision in relation to the SDZ planning scheme will issue very soon.

I should also mention that, from an early stage, we devoted particular attention to maximising the delivery of social housing from properties controlled by our debtors and receivers. To date, over 2,500 units have been delivered on over 180 individual projects. In total, NAMA's expenditure on social housing (through drawn and committed payments) amounts to approximately €350m. This includes costs incurred by our social housing vehicle, NARPS, in purchasing units for onward lease to housing bodies and local authorities. It also includes capital expenditure incurred on the completion of housing units including fit-out costs and, where necessary, remediation costs.

We have acted as catalyst for the development of the Dublin Docklands SDZ and have done so without putting taxpayer funds at risk to any great extent. This area has the capacity to deliver 4 million square feet of commercial space and over 2,000 residential units. This new supply of office and residential space has contributed to Ireland's capacity to attract foreign direct investment (FDI) to Ireland and to benefit from the Brexit-induced exodus of companies from the UK.

Staffing

Those of you who are familiar with NAMA will know that it is an unusual hybrid of the public and private sectors: the agency carries out functions on behalf of the public and is accountable to the Minister and to Oireachtas committees but is operating in the commercial sphere and is staffed mainly by people recruited from disciplines, such as banking, property and corporate finance, which are traditionally associated with the private sector. The majority of NAMA staff are employed on specified purpose contracts and, accordingly, have limited job security.

One of the most serious challenges that we encountered was to retain the expertise necessary to complete our work, particularly as alternative employment opportunities opened up for many of our specialist staff as the economy recovered. The voluntary redundancy programme approved in 2014 by the former Minister for Finance, Mr Michael Noonan, provided us with a mechanism with which we could incentivise staff to remain with NAMA. This was very effective in stemming what could otherwise have been a major and damaging exodus. I am satisfied that the benefit to taxpayers from this initiative has been a substantial multiple of the relatively minor additional cost involved.

Outlook

NAMA was never intended to be a permanent feature of the landscape and, as I indicated, we are currently in the wind-down phase of our work. This involves completing our remaining deleveraging activity and our residential delivery and Dublin Docklands SDZ programmes. Much of the residual loan portfolio is secured by a large volume of low-value assets, many of which will require careful workout if their value is to be optimised.

Under the NAMA Act, it is a matter for the Minister for Finance to determine when NAMA has completed its work. Our current expectation is that our work will be largely done by 2021.

There is a possibility that a small number of loans may not be resolved by then due to ongoing litigation that is largely outside our control. In addition, there is a possibility that there may a small residual loan portfolio where best value for the State may not be achieved through sale or disposal before the end of 2021. Every five years, the Minister for Finance is required to carry out a review of NAMA under Section 227 of the NAMA Act. The first such review was published in 2014 and the second review has now commenced. The Minister stated recently he intends to use this review to make a decision as to how best to manage the wind-down of NAMA, particularly in the context of the need to ensure that the State extracts maximum value from any residual loans or assets remaining after 2021.