

**Opening Statement by  
Mr. Frank Daly, Chairman of NAMA**

**Public Accounts Committee  
Thursday, 1 October 2015**

Good morning Chairman and Deputies,

My comments this morning relate specifically to the sale of the Northern Ireland loan portfolio (Project Eagle) which has received much attention on both sides of the border over recent months. When the Chief Executive and I appeared before you in July, we spoke at length about the Project Eagle sales process. There has been much coverage of various aspects of the transaction over the past three months, much of it related to what may or may not have happened on the purchase side of the transaction and particularly in Northern Ireland, but the key points that we made to you in July are still valid and I want to reiterate them.

### **Alleged wrongdoing**

If there was wrongdoing on the part of some parties involved on the purchase side of the transaction in Northern Ireland, including those who acted as professional advisers to potential purchasers, we in NAMA have no more knowledge of that than what has been publicly disclosed to date. The facts, as they pertain to those individuals and their activities, are a matter for the relevant authorities in Northern Ireland and other jurisdictions to establish. If an alleged payment involving Tughans did find its way to an account in the Isle of Man, as has been alleged, it did **not** emanate from the sales proceeds that were due to NAMA and to Irish taxpayers. When NAMA became aware of a concern surrounding the participation of one of the bidders for Eagle, we immediately, and without hesitation, took steps to ensure that potential bidder withdrew from the loan sale process.

The Chief Executive and I met the UK's National Crime Agency some weeks ago and provided them with an overview of NAMA and the chronology around the sale of Eagle. It is our clear understanding, based on that engagement, that their investigation is not in any way concerned with the NAMA sale side of the transaction. Their focus appears to be very much on the purchase side and what may or may not have taken place in Northern Ireland.

## **Sales process**

The loan sales process for Project Eagle was well-managed and competitive. The sale was conducted in line with best international practice, independently overseen by Lazard and NAMA took care at all stages to ensure that the integrity of the process was fully protected.

The implication of many of the allegations is that parties in Belfast either had influence over NAMA's decision-making in relation to Project Eagle and/or had access to confidential NAMA information that could have afforded certain bidders a competitive advantage in the sales process. On the first point, let me make it very clear that no pressure from any source, North or South, political or otherwise, influenced NAMA in regard to the commercial decision to sell the loans of NAMA's Northern Ireland debtors or influenced the decision to accept the winning bid from Cerberus. All decisions were made, as is correct and proper, by the NAMA Board.

Let me also reiterate that members of the Northern Ireland Advisory Committee (NIAC) had no access to confidential NAMA information. In fact, all bidders had equal access to all of the information on the loans and the underlying security once they entered a controlled data room. No bidder could have had a competitive advantage over another because all bidders were given full and equal access to all relevant information held by NAMA. We have no knowledge of what third parties on the purchase side were allegedly saying in Northern Ireland but we can say categorically that they had no influence over NAMA's decision-making, no access to NAMA confidential information and were in no position to confer an unfair competitive advantage on any of the bidders in the process.

I have little doubt that the commercial decision taken by the NAMA Board to dispose of the NI loan portfolio was the right one. The Board took the view that the sale would provide the best financial outcome for Irish taxpayers, taking into account the quality of assets in the portfolio, the lack of liquidity in the NI property market, the availability of a number of investors with the

capacity to bid competitively on the portfolio and NAMA's need to focus on its assets in the Republic and in London which were more likely to gain from intensive asset management attention. NAMA set a reserve price based on the aggregate value of the assets securing the portfolio and it achieved that price. I will address later in this statement the hearsay claim that the portfolio was sold for less than what it was worth.

There has been an attempt to suggest – without evidence - that Cerberus have made a huge profit on the Eagle transaction. Based on their own submission to the NI Finance and Personnel Committee (letter dated 16<sup>th</sup> September 2015), which is publicly available, Cerberus stated that they expect to write off a cumulative £2.8 billion of debt. That implies a realisation of £1.5 billion on a portfolio for which they paid £1.3 billion. On the assumption that funding, loan servicing and other costs will amount to 8% over an assumed workout period of 30 months, Cerberus would be left with a profit of about 7%-8%. While clearly Cerberus invested in the portfolio with a view to generating a profit, the data provided by them to the NI committee hardly suggest that the Irish taxpayer was robbed, as has recently been suggested by some of the more excitable commentary. There is no certainty that this projected profit will be achieved ultimately, given the difficulty of predicting the performance of markets and of economies. In essence, we were faced with a choice of taking a certain £1.3bn in cash upfront, or taking the very substantial risk of holding on for a potential upside of another 7%-8% and putting this £1.3bn at risk for a limited additional gain that may or may not be generated over a 3 to 4 year period. Knowing what we know about this portfolio, this is a risk NAMA was not prepared to take.

## **Price movements**

There were also claims that the value of the Eagle portfolio increased by 20% in the 15 months since the sale was concluded. Based on independent data available to us, this claim is without foundation.

The most reliable data that we have been able to obtain suggests that NI commercial property prices increased by **2.3%** for the 2014 calendar year. No reliable updated data is yet available for 2015. I should point out though that the estimated 2.3% price growth was largely based on an investment portfolio of prime retail, office and industrial income-producing assets.

By contrast, Project Eagle contained a significant proportion of lower quality land and development assets and other assets that would not fit institutions' investment criteria. It is reasonable to assume that price recovery for this asset class would lag that of the better quality assets typically measured by price indices. Based on this, we have concluded that, at best, Eagle assets may have increased in price by a maximum of 2%-3%, not the 20% claimed in some media reports. When account is taken of funding and management costs, NAMA could have made little or no gain from retaining the portfolio and working it out as far as 2020 by comparison with the option of selling it, as we did, in early 2014.

It is also important to point out that Cerberus have more flexibility in their ability to manage the portfolio than NAMA had. This is because Section 172 of the NAMA Act prohibits NAMA from selling assets back to defaulting debtors. While we have no way of knowing the ultimate impact of Section 172, one can speculate that, in some cases at least, debtors would be willing to outbid third-parties, with the support of third-party financing, in order to ensure that they obtained control over their assets, given they had the best knowledge of them.

## **Recent allegations**

I now turn to a number of additional allegations which were made under Dáil privilege by Deputy Wallace last week.

***Deputy Wallace claimed that Cerberus or some 'fixers' went to some of the major Northern Ireland debtors prior to the sale of the portfolio and offered to sell them back their loans for 50 pence in the pound. He goes on to imply that, having bought the loans from NAMA at 27 pence in the pound, Cerberus were then able to sell the loans at twice what they paid for them.***

This is a serious misrepresentation of the facts. Cerberus bought the Eagle portfolio at a price which corresponded to an average of 27% of its par value. The price that we achieved was based on the aggregate value of the properties securing the portfolio. Neither Cerberus nor any other bidder would ever pay the par value for the loans unless the underlying assets were worth at least as much as the loan par value. Nor would they pay more than the aggregate underlying assets were worth i.e. 27% of par value at the time of sale following open marketing of the portfolio. It may well have been the case that the loan portfolios of certain individual debtors

were priced at 50% of the par value because the properties securing them were better than the average. If that were the case, it would have made sense for Cerberus and the particular debtors involved to agree a buyout price at or about 50%.

But it is utterly disingenuous to suggest that the **whole** portfolio could have been sold for 50% of par value. The price we agreed was based on our own valuations of the loans. We were fully aware that some loans were worth 50 pence in the £1 – and some were worth far less; perhaps as little as 5p in the £1. The blended average across the portfolio as a whole represented 27% of par value. That is the highest that any bidder - out of 9 major investment groups approached - was prepared to pay for the portfolio as a whole and the highest that could be achieved.

It stretches credulity to suggest that Northern Irish (or indeed any other debtors) and their new investors or bankers would have paid 50 pence to buy back assets which were worth only 27 pence. Some of the commentary over the past week has been written by commentators who have been silent on this point but know very well how implausible it is or, at the very least, ought to know.

***Deputy Wallace then goes on to ask why NAMA could not have negotiated with debtors to secure 50% of the loans' par value as, he claims, was achieved by Cerberus.***

Aside from the implausibility of the claim that Cerberus was in a position to sell its whole Eagle portfolio at 50% of par value, there was nothing to prevent Cerberus or any other buyer once they had bought the portfolio from negotiating deals with debtors which would have involved the debtors buying the loans at a discount to par. Some loans may have been worth 50% of par value but many others were worth much less. The Deputy asks why NAMA could not negotiate such deals. The answer is straightforward: Section 172 of the NAMA Act prohibits us from so doing.

***Deputy Wallace states that because the price paid by Cerberus was 27% of par value, taxpayers in the Republic had to cover the shortfall relative to par.***

The Deputy's implication is that, if NAMA were to retain this portfolio for long enough, it would eventually recover par value. This is a totally unrealistic view of what is achievable within any reasonable timespan. If par value were ever to be realised from this portfolio, a realistic timeline

for realising it runs into decades, not years. As we indicated to this Committee in July, NAMA bought the portfolio at a heavy discount and then had to impair it further after acquisition due to further property price declines and economic stagnation in Northern Ireland. The key point to bear in mind about the Eagle portfolio is the fact that five Irish banks advanced £4.5 billion to Northern Ireland debtors for the purchase of assets which were generally of mediocre or poor quality and which subsequently lost, in aggregate, over two-thirds of their value. Blaming NAMA for that is akin to blaming the fire brigade for a major fire which was set off by an arsonist.

***Deputy Wallace states that some €45 million has been paid in what he describes as 'fixers' fees'.***

As the Deputy did not provide any detail as to what these fees represent, it is difficult to comment in any detail on this point. I am aware, however, that it is normal practice for debtors to pay fees to new lenders when refinancing or buying back their loans and it is possible that this is what the Deputy has in mind. I understand that these fees – commonly referred to as arrangements fees - are typically charged at about 1% of buyout value and this is normal banking practice. Even if 1% fees were paid on the whole portfolio, the total fee payment would amount to £13m, not the €45m claimed. It is also possible that the Deputy is referring to fees which debtors might have paid to accountants, lawyers and corporate finance advisers to assist them in their engagement with Cerberus. However, in the absence of any further information about the fees involved, it is difficult for me to offer the Committee any insight as to what the Deputy might have had in mind.

I can state categorically that these supposed 'fixers' fees do not in any way relate to NAMA. We have already disclosed that fees incurred by NAMA in relation to this transaction were €9 million (which is about 0.6% of the sales price) and that they were principally fees paid to Lazard as our loan sale adviser and to a number of legal firms. We have no difficulty in publishing the full list of service providers and the fees paid to them by us as part of the Eagle sales process if that is required. We have nothing to hide.

## **Unsubstantiated allegations**

On a more general note, it is difficult for NAMA or indeed any organisation to properly address allegations where such allegations are vague or implausible and where no evidence is produced

to support them. It is unfortunate to say the least that in some cases those making the allegations appear unconcerned about the reputational or commercial damage that their unsubstantiated allegations may cause to the organisation concerned or to any individuals that they may name. Often there are no consequences for them if their allegations prove to be without foundation whereas the reputational damage to the organisation or individual may well be impossible to reverse.

If those making such allegations genuinely believe that the information that has been passed on to them is indeed accurate and reliable, we would again urge that they pass it on to us or to the appropriate authorities so that it can be objectively investigated. If a criminal act is alleged to have been committed, they are of course obliged to report such matters to the Gardaí under section 19 of the Criminal Justice Act 2011.

## **Conclusion**

NAMA is well on its way towards achieving its primary objective of redeeming close to €32 billion of senior and subordinated debt. In addition, we hope to generate a surplus, the upper range of which is currently estimated at €1.75 billion.

To put all this into context, we paid, as required by statutory regulations, €5.6 billion of State Aid as part of the acquisition price of our loan portfolio, in effect €5.6 billion more than a private purchaser would have paid for this portfolio. We have also had to take a cumulative impairment provision of €3.5 billion. Against that strong headwind, I believe that repayment of senior and sub debt and generating a surplus will be recognised in time as a significant achievement in very difficult circumstances.

In time also, I believe that the intensive planning and preparatory work that we are currently carrying out will make a major contribution to the development of the Dublin Docklands, as will the funding that we are providing towards delivery of private and social housing, particularly in the Dublin area, where housing need is most acute.

Thank you for your attention.