Opening Statement by Frank Daly
Chairman of the National Asset Management Agency
Committee on Public Accounts
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Chairman and Deputies

Introduction

Thank you for this opportunity to address you this morning and to provide you with a progress report on what NAMA has achieved to date and what now needs to be done. The Chief Executive Brendan McDonagh and I would like to make some comments before we take your questions.

This is a timely meeting because NAMA is now coming to the end of the first, critical phase of its work – namely the acquisition from the five participating banking institutions of about 11,000 problem loans with a collective value of approximately €73 billion. This part of our work will be concluded in the coming weeks and we will then continue to focus on the repayment of these debts by the borrowers.

The members of this Committee will be very familiar with the background to the establishment of NAMA and I don't intend to rehearse it again now. But ultimately our role is to remove toxic lending from the Irish banking system so that key institutions can play the critical role we require of them in the national economy. Indeed it is timely to recall that the banks did successfully play such a key role for many, many years before the collective delusion which seems to have gripped them in the middle of the past decade. I do believe that the banks have put that delusion behind them and are committed to playing the type of responsible and strategic business role that will help sustain this country in future years.

Year One Priorities

NAMA had two major priorities for its first year.

The first of these was to acquire the eligible assets from the participating institutions. The Minister indicated in his Statement on Banking on 30th September that NAMA would complete the transfer of all loans by the end of the year. We have made good progress: as of today, NAMA has acquired loans with nominal balances of over €53 billion and has issued NAMA bonds to a value of €23 billion to the five participating institutions. We expect that, by the time the transfers have been completed next month, NAMA will have acquired loans with nominal balances of €73 billion and will have issued over €30 billion to the institutions. The discounts on these loans have been in line with the estimates provided by the Minister in his Statement. The full due diligence and valuation process will be completed in the first quarter of next year and, to the extent that NAMA may have overpaid or underpaid for the acquired portfolios, appropriate adjustments will be made at that stage.

NAMA's second major priority was to put in place appropriate structures, strategies and policies to deal with debtors whose loans we acquire. Immediately following the Board's establishment in December 2009, we set up a number of key Board Committees, namely the Credit, Audit, Risk and the Finance & Operating committees. These were supplemented by two advisory committees, the Northern Ireland Advisory Committee and the Planning Advisory Committee.

I am pleased to say that the Board and its committees have been very active and committed in the conduct of their responsibilities: altogether, in the eleven months since it was appointed, we've had in excess of 100 meetings of the Board and its key Committees; some 83 Committee meetings and some 20 meetings of the full Board. .

Debtor and Asset Management

A significant part of the work of the Board has been to determine policy in relation to debtors and assets. In our Business Plan, which was published at the end of June, we outlined a number of the strategic and policy decisions which we adopted and I think a number of these deserve to be highlighted in the context of our discussion at today's meeting.

One key principle adopted by the Board was that NAMA would pursue all debts and debtors to the greatest extent possible. NAMA's core commercial objective will be to recover for the taxpayer whatever it has paid for the loans in addition to whatever it has invested to enhance property assets underlying those loans. But it is important to emphasise that NAMA, having recovered its outlay, will not then absolve debtors of their further obligations. Debtors will continue to be fully liable for the debts that they have incurred. Where appropriate, NAMA may agree to debt rescheduling and loan restructuring in the case of debtors considered to be viable within a three-/five-year timeframe but any debtor who expects the taxpayer to assume his or her debt burden will not be indulged.

In considering the business plans of debtors, we have adopted some very clear principles.

While we have said that we will work with debtors, we will only do so where that is clearly the best commercial approach to take in order to recover money for the taxpayer.

The decision will ultimately depend on the realism that debtors show in their plans.

For example, we have only accepted plans which set out a target for a significant reduction in debt over a three to five year horizon. NAMA is not interested in plans which envisage stabilisation or a modest reduction in debt over the medium-term. Debtors must set out a target for a significant reduction in their debt over a three to five year timeframe and, for most debtors, this means submitting a list of assets which will be sold to raise cash and to repay debt.

Where a debtor cannot convince NAMA that they have the financial and / or managerial capacity to meet a debt reduction target, the only option is foreclosure. Difficult as these decisions are, we have not shirked from them. We understand the real consequences for many people so I need to assure the Committee that we take such decisions only after the most rigorous and objective evaluation.

Transferred Assets

We have also insisted that debtors produce a comprehensive list of all their assets, including assets which have been transferred to spouses or others over recent years,. There are means by which we can independently check the veracity of these statements.

We have insisted that debtors reverse asset transfers and grant NAMA legal charges over unencumbered assets. We have been assiduous in acquiring personal guarantees provided by debtors to the institutions even if such guarantees are currently worthless and we have, therefore, not paid anything for them. We intend to enforce these guarantees to the greatest extent feasible. Each debtor's circumstances are considered on their own merits but I can assure you that any debtor who considers that he is entitled to place certain assets beyond the reach of NAMA while seeking taxpayer support is seriously deluded.

It is important to point out that, in circumstances where it is obvious that the purpose of a transfer of assets, whether to a spouse or otherwise, was a pre-emptive attempt to put assets beyond the reach of NAMA, we have considerable leverage in dealing with such creative manoeuvres. There are a number of statutory remedies available to us, including the Conveyancing Act, the Land and Conveyancing Law Reform Act 2009 and some provisions of the NAMA Act. Section 211 of the Act provides that NAMA may apply to a Court to declare a disposition to be void if it can show that the effect of the disposition was to impair the value of an eligible bank asset or any rights that NAMA would have acquired but for the disposition.

Overheads and Salaries

Another issue which has attracted some comment recently has been the level of salary that may be permitted to debtors in those cases where NAMA has agreed to work with them in order to secure repayment of their debts.

We realised early on in our engagement with debtors that many of them had been allowed by their banks to develop an unsustainable and unrealistic level of business overheads out of which, in many cases they were funding extravagant personal spending.

As part of the debtor business plan approval process, we have typically directed debtors to reduce their business overheads to between one quarter and one half of what they were. These reduced overheads have to cover a broad array of expenses, including salaries for relevant executives.

NAMA does not specify the salary of any individual but where a draft plan suggests to us that the salary proposed for a debtor or his management team is in excess of their likely contribution, then we will not accept it. The key issue for NAMA is whether leaving a debtor or his team in place makes commercial sense compared to the alternative options, including insolvency. In other words, what is the added value that a debtor can be expected to deliver in terms of achieving the financial and other targets set by NAMA?

Accountability

I would like Chairman to refer to NAMA's accountability.

The Board of NAMA must carry out its functions independently but is heavily guided by its obligations under the Act and is subject to a high level of public accountability:

- I, as Chairman, and Brendan as Chief Executive, will appear before this and other Oireachtas committees whenever required to do so;
- NAMA's accounts are comprehensively audited by the Comptroller & Auditor General, who has a permanent team of officers based in the NAMA offices and who have unrestricted access to all our records and files;
- NAMA must report to the Minister on a quarterly basis giving detailed information about its loans, its financing arrangements and its income and expenditure. No other commercial semi state body that I am aware of produces such quarterly accounts:
- NAMA's annual accounts will include detailed information about debt securities issued and redeemed, advances made and its asset portfolios in addition to the normal profit and loss accounts, balance sheets, administration costs, etc;
- The Board is also required to submit to the Minister an Annual Statement setting out its proposed objectives for the forthcoming year, the scope of

activities to be undertaken, its strategies and policies and its proposed use of resources;

- The process of loan valuation and acquisition is also being audited on behalf of the European Commission.

In fact, Chairman, there is hardly an entity, public or private, that is subject to as much scrutiny and oversight as NAMA. That is as it should be. NAMA is managing a huge financial exposure on behalf of the taxpayer and the level of public scrutiny to which it is subject is fully justifiable on that basis.

A Commercial Remit

But NAMA is also a commercial entity with a remit to produce a return to the taxpayer on its management of a loan portfolio in excess of €70 billion. It is required by law to operate to a commercial mandate and that means being commercially astute and, for that reason, NAMA cannot disclose details of individual debtor circumstances, however much some commentators might wish it.

NAMA, over its lifetime, will be engaged in extensive negotiation with a wide array of other commercial interests, including those interested in purchasing loans or properties from it. It would be commercial folly for NAMA to reveal its hand in such negotiations through full disclosure of the detail of its loan and asset portfolios; in fact, such disclosure would fundamentally endanger its prospects of achieving its financial targets and getting the best return for taxpayers.

Contribution

I mentioned earlier that NAMA has acquired over €53 billion of loans to date and expects to have acquired €73 billion within a few weeks. This represents a very substantial injection of liquidity into the system. The benefits to the banks of the NAMA process are significant: they reduce their risk-weighted assets and remove from their balance sheets loans that generally cannot be used as collateral to access liquidity with central banks or market counterparties. Instead, they receive government securities which can be used for such purposes.

In terms of its initial key objective of acquiring property-related loans and providing the necessary funding to the banking system, NAMA will, by and large, have completed its work over the coming weeks. It will then be a matter of focusing our full attention on recovering for the taxpayer as much as possible of the €73 billion owed by debtors. We will be managing directly the debts of the largest 170 debtors whose aggregate NAMA debt is about €58 billion. The other 650 debtors (with about €15 billion outstanding) will be managed on our behalf by the participating institutions in line with authority delegated to them by NAMA. In our Business Plan which was published in late June of this year, we indicated that our central case scenario was that NAMA would, over its lifetime, produce a net present value (NPV) gain of €1 billion. At this stage, we have no compelling basis for revising that estimate but the Board is likely to review some of our Business Plan projections in the light of the final figures for acquired loans and associated acquisition values and taking into account also the impact of the Minister's decision that NAMA should not acquire the debts of debtors whose exposure is less than €20m with AIB and Bank of Ireland. While it is not possible before that review to be definitive on the matter, I do not believe that the review will have a negative impact on our projected NPV gain.

Conclusion

I believe that NAMA has proved its objectivity and independence in its work to date, not least in its rigorous application of the EU-approved methodology for the valuation of acquired assets. I note that we seem to hear less and less these days about NAMA over-paying for loans - if anything the tune has changed to suggesting that we are underpaying. I think it is fair to say that participating institutions and debtors who have engaged with us have not found it to be a particularly cosy experience: both institutions and debtors have found us to be robust, professional and intolerant of wishful thinking. The days of 'hope value' are over. The days of realism are here.

In fact, there are those who now say that we have been too harsh in our valuations. This also is untrue. If NAMA had never been established, the banks would still have had to address the fact that the scale of their property lending was well in excess of the value of the associated underlying collateral. All NAMA has done is to force them to recognise this sooner rather than later. The NAMA process is equivalent to removing a tumour from the system: the initial impact is traumatic but it is a necessary prerequisite for long-term recovery. It is not for me to comment on the efficacy of approaches that have been adopted by other countries. What I would say is that we have been realistic enough to face up to our difficulties at an early stage and to apply the necessary remedial action ahead of many of our peers. This has been well recognised and appreciated abroad. I note, for instance, the recent comment of the *Economist* that, in the long run, Ireland's response is the better one in that it forces banks to clean up their balance sheets vigorously rather than to put off dealing with their problems or to insure impaired loans and just hope they improve.

I thank you for the opportunity to address you today.