

## **NATIONAL ASSET MANAGEMENT AGENCY**

**Opening Statement to Joint Committee on Finance and the Public Sector**

**by the Minister for Finance Mr Brian Lenihan TD**

**Tuesday, 26<sup>th</sup> May 2009**

Thank you for the opportunity you have given me to address you on the subject of the proposed National Asset Management Agency - NAMA. I am joined here today by Mr Brendan McDonagh, the interim Managing Director of NAMA, his colleague from the NTMA Sean O'Faolain, and by Dr. Peter Bacon, who prepared the report on the establishment of an asset management agency.

As you know, in my Budget Statement of April 7<sup>th</sup>, I announced the Government's decision to set up NAMA, under the aegis of the NTMA, with a view to addressing in a comprehensive way the problem of impaired or potential impaired assets in the banking system.

Before the new interim Managing Director of NAMA, Mr Brendan McDonagh, and his colleagues bring you through the operational work underway and to come, I would like to set out the rationale for the establishment of NAMA and to explain why it is necessary to our economic recovery.

It is important to be reminded that the reason for the Government's interventions to date, including the establishment of the National Asset Management Agency, is to stabilise the banking sector. The banking system is unique. Its proper functioning is critical to the smooth running of the economy and therefore must be protected by Government - the recent global financial crisis has given rise to numerous interventions

across the developed world. Here in Ireland, through the bank guarantee, bank recapitalisation and the protection of public ownership, we have provided very substantial support to the banking sector. Our overriding objective is clear – maintain a functioning banking system that will ensure a flow of credit to the real economy.

Cleansing and repairing the banks' balance sheets is considered fundamental to achieving a sustained recovery of the banking system. Following a review of the options available to tackle risky assets, including an assessment by officers of my Department of the options raised by Dr Peter Bacon, the Government decided that an asset management agency was the most appropriate solution available to address the issue of asset quality in the banking system.

NAMA will be established on a statutory basis, under the aegis of the National Treasury Management Agency. Assets will be transferred from the banks to the NAMA to strengthen their bank balance sheets and ensure that uncertainty over bad debts is reduced. This will facilitate a sustained flow of credit on a commercial basis to individuals, households and businesses in the real economy.

Because it is clear that the principal uncertainties in relation to asset quality in the Irish banking system lie in the banks' land and development loans and in the largest aggregate associated exposures in the banks, it is these categories of loans that will be transferred to the Agency. These assets pose the main systemic risk to the banking sector in Ireland and the most significant obstacle to the recovery and restoration of lending by the banking system.

The Agency will purchase the assets through the issue to the banks of Government bonds. This will result in a very significant increase in gross national debt, to be offset of course by the assets taken in. The cost of servicing this debt will be offset, as far as practical, from income accruing from the assets of the new Agency. The debt will be repaid from funds raised through the realisation of those assets over time.

The potential maximum book value of loans that will be transferred to the Agency is estimated to be in the region of €80 to €90 billion, although the amount paid by the Agency will be significantly less than this to reflect the loss in value of the properties. Initial work on the valuation methodology to be applied is underway, and will be elaborated on by the interim Managing Director.

It is important to note the State will not assume all of the risk in the acquisition of these assets. The assets will be valued on a basis which is sustainable for the taxpayer. This will entail an assumption of losses by the financial institution whose assets are removed. In the longer term, if the Agency were to fall short of recouping all of the costs, the Government intends that a levy should be applied to recoup any shortfall.

All borrowers will be required to meet their full legal obligations for repayment. There will be a hardening of the approach to these borrowers – taxpayer's money is at stake, and the Agency will be expected to protect it in a commercial way and with an independent remit.

This initiative will be developed and implemented within the common EU framework detailed in the European Commission Guidance on the Treatment of Impaired Assets, working closely with the European Commission to obtain prior State aid approval. By drawing on the best

advice and experience available internationally, we are committed to ensuring that this very significant measure will be an example of best practice and meets all of the objectives that the Government has set for it.

I would like to comment on what many commentators seem to be suggesting is an alternative to an asset management agency approach – that is the wholesale nationalisation of the State guaranteed banks. The Government does not accept that the nationalisation of the whole of the Irish banking system will be the short term panacea that many envisage.

The Government believes that it is important, where possible, that the banking sector has a market presence and that it operates within market disciplines and constraints. The Government's objective is to ensure that the lending needs of the real economy are met. A commercially focused banking system, which includes banks having a market presence, operating within market disciplines and constraints, is best equipped to achieve this aim.

Nationalisation will not in itself make the problems faced by the banks go away. I should remind Members that many of the difficulties relating to managing impaired loans, cleansing the balance sheets of the banks and dealing with legal challenges will also arise in the context of a nationalised banking system and perhaps even to a greater extent. Nationalisation I believe is something we should avoid if possible.

This is not a position held no matter what the cost, but is rather a balanced approach to the existing situation. Indeed I have made clear that if any further capital injections are required from the State for either of

the two main banks, these will be in the form of equity capital which would have the effect of increasing State ownership of these two banks.

The establishment of NAMA will no doubt give rise to complex practical difficulties and it is important that we undertake the detailed preparatory work necessary before finalising the legislative and operational framework. The preparatory process is being overseen at this initial stage by a Steering Group made up of representatives of the Department of Finance, the Attorney General's and the NTMA.

Mr Brendan McDonagh has been appointed as interim Managing Director has been appointed to drive the implementation process forward. Mr McDonagh will be assisted by an Advisory Committee, to be appointed shortly, which will provide him with a range of expert advice.

I have also directed the NTMA to provide the necessary staffing and other facilities through its existing resourcing arrangements to support the interim operation of NAMA, pending its establishment on a statutory basis. The NTMA is currently contracting experts to assist the interim Managing Director and the Advisory Committee and substantive work has commencing on analysis of eligible assets, valuation methodology, and engagements with the financial institutions.

My Department has also opened communications with the EU Commission with a view to ensuring that establishment of NAMA on a statutory basis is consistent with EU guidelines on the treatment of impaired assets and complies with State aid rules.

I can confirm that it is my intention to publish legislation in July, which should allow us sufficient time to get things right. I can also confirm that the Oireachtas will be given adequate time to debate the important issues arising in this legislation and if necessary I will seek an early recall to deal with it.

Substantial progress has been made since the Government's announcement in April to establish NAMA, but clearly much more needs to be done. We cannot allow ourselves to rush the process as the impediments to be overcome are both complex and challenging. Nevertheless, practical arrangements for the operation of NAMA are progressing at pace. Mr McDonagh and his colleagues will now describe to the Committee in more detail the progress which has been made to date and will outline what is to come. I think you will agree that, contrary to much media commentary, we have made good progress on the practical and legal issues to be addressed before NAMA is established.