Remarks by
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I am here today to speak to you in my capacity as Chairman of the Northern Ireland Advisory Committee of the National Asset Management Agency about the implications of NAMA for Northern Ireland.

Whilst it is an honour to speak here, in order to effectively fulfil my Northern Ireland role it is much more important that I listen, and that we in NAMA listen, and learn and by doing so get a full understanding of the market and other issues in Northern Ireland.

We have met with, and listened to, Minister of Finance and Personnel Sammy Wilson. We are aware of his excellent relationship with Brian Lenihan, our Minister for Finance. We have some understanding of the importance of the state sector in the Northern Irish economy, and we are mindful of the particular challenges that will be encountered with the cutbacks in state funding by the UK government.

On the Northern Ireland Advisory Committee we have two external members who are highly respected both politically and commercially, both of whom know Northern Ireland and its economy and who will not hold back in expressing their views. We also have on the committee a senior NAMA executive, Ronnie

Hanna who, prior to joining NAMA, spent 30 years with Ulster Bank in Belfast.

I have listened also to the earlier speakers at this conference today and look forward to your thoughts and comments later this afternoon.

Following the financial crisis of 2008 most of the major economies of the world needed to put in place structures for supporting their banking systems. A variety of models were used and the Irish Government proposed (and Parliament approved) the establishment of the National Asset Management Agency with a principal purpose to- and I quote- "**address the serious threat to the economy and the stability of credit institutions in the State generally and the need for the maintenance and stabilisation of the financial system in the State**"[1]

The NAMA Act of 2009 sets out the method by which NAMA will function in terms of the acquisition of bank assets from the participating institutions and states that NAMA should hold, manage and realise these acquired assets.

NAMA is now fully operational. It will have 100 staff by the end of this year. To date loans with a nominal value of £23 billion have been transferred into NAMA after a stringent due diligence process. We are on target for completion of all transfers with a nominal value of approximately £68 billion involving in the region of 14,000 individual loans to about 1,500 borrowers by early in 2011. We have developed a detailed business plan that sets out a ten-year timetable for the realisation of our acquired assets.

Other countries have taken different views on how to deal with their banking difficulties. There have been many critics of the NAMA process but I believe it is increasingly being seen as an effective solution to our banking difficulties. Such change in perception was exemplified in a recent article in The Economist of which stated, "In the long run Ireland's response is the better one, but in the short term it puts pressure on the borrowing because the government has to keep injecting capital into broken banks."[2]

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[1] National Asset Management Agency Act 2009

[2] The Economist – Ireland's Banking Mess; Austerity is not enough to avoid the scrutiny by the markets – August 19th 2010

The establishment of NAMA and the other measures taken by the Irish Government and the decision of five Dublin banks to participate in NAMA has indeed provided a level of stability to our credit institutions. This extends to Northern Ireland; three of those participating institutions are significant players in the Northern Irish market. Two of these – Bank of Ireland and First Trust (part of AIB) - employ between them nearly 3,000 people and are bankers to businesses and households throughout Northern Ireland. Without State intervention there would have been a collapse in the banking system.

We recently met with Minister Wilson and he has explicitly recognised that without NAMA there would indeed have been a catastrophe in Northern Ireland. The ten year time frame of NAMA provides a vital breathing space to tidy up the hangover from the speculative binge of the years 2004 to 2007.

There has been a mistaken perception that NAMA is acquiring Northern Ireland-based properties at a discounted price. In fact, NAMA is acquiring loans from banks that are secured on Northern Ireland assets. We go through a full valuation process of these loans and the major factor included in this process is, of course, the value of the underlying security. The underlying securities are valued on a current market value basis as at 30th November 2009, in accordance with guidance notes and standards issued by NAMA. These valuations are verified by our own valuers and there is a review process. Current market values have been uplifted for long term economic value and in general terms this has averaged approx 10% value uplift.

Now I have said that NAMA will acquire bank debts rather than the underlying secured assets and clearly it would be our preferred option that this would be the continued method of operating. That is to say that the current owners, individuals or companies, would continue to manage the assets and would make interest and capital repayments to NAMA.

There will be cases where enforcement proceedings will be necessary, where NAMA will itself take control of the underlying security.

The choice for debtors is either one of consensual agreement or of enforcement. There are good reasons why debtors should wish to assist NAMA in maximising the realisation of assets through a consensual approach.

These debtors; be they house builders, land speculators, developers or collectors of property assets have played their part in bringing the economies of this island to the present state. They cannot simply blame their misfortune on the world financial crisis or the over-exuberance of the bankers. They now have an opportunity, through working with NAMA, to make some amends for the damage that has been done. Secondly, they have the opportunity to avoid enforcement proceedings. Whilst it will be necessary in some cases to go through the full enforcement process, we believe that the debtors would also prefer that we do not have to go through the process of judgements, judgement mortgages, liquidations, bankruptcies, High court examination of debtors, disqualification of Directors, garnishee orders, instalment orders, and committal orders for failure to meet instalment orders. But be in no doubt that where it is necessary to take such steps, they will be taken. Our team at portfolio management have engaged with the first tranche of developers and we believe that there is an increasing air of realism about these discussions. This is not to say that we have yet achieved full agreement on the way forward but we are making good progress and we anticipate that we will reach a consensual approach in most cases.

The transfer of the eligible assets, that is bank loans, from the participating institutions – Bank of Ireland, AIB (First Trust in Northern Ireland), Anglo Irish Bank, EBS and Irish Nationwide - will be done in a number of tranches, with the completion date in early 2011. As I previously mentioned, the total number of loans to be acquired is expected to be 14,000 in number, so it can be understood that collating the data in relation to security for these loans is an enormous task. To date the nominal value of the acquired loans secured on Northern Ireland located assets amounts to £300 million.

Whilst we will not have an accurate picture of either the total value or the detail of the Northern Ireland secured assets until the full completion of acquisition, we have, on the basis of information supplied by the participating institutions, been able to come up with some estimates. Our qualified estimate at this point in time is that the total nominal value of loans secured on Northern Ireland assets will be in the region of £3.35billion. We further estimate that this total can be broadly broken down into the following categories – undeveloped land £2 billion, investments about £1 billion, and property and land in course of development £350 million.

Our task in NAMA is to hold, to manage and to realise these assets. In our business plan, which was published in early July 2010, we have set out our targets for pay down of our NAMA debt as to; 25% by end of 2013, 40% by end of 2015, 80% by end of 2017 and 100% by end of 2019.

In order for NAMA to pay down its debt it clearly must achieve its own realisation of assets by; the sale of loans, by debtors' repayments to NAMA or by its own enforcement and then disposal of secured assets. We have clearly stated within our business plan that strategically we will take a neutral view as to the future market movements. We have further stated that we will not adopt specific policies for any geographical area. Therefore the key driver determining the timing of sales must be market liquidity.

We are not in any doubt that market liquidity is going to be a significant problem in Northern Ireland.

I have said that we have estimated the nominal value on loans secured on undeveloped land at £2 billion. CBRE, Belfast has given me their estimates of total market transactions in recent years. They have suggested that the normal market for land sales in the years 2000 to 2005 might have been about £100 million per annum and that this volume of transactions spiked up to about £750 million, that is, an increase to seven and a half times the normal level, in the years 2006 to 2007.

Throughout the world there have been different forms and shapes of property bubbles and Northern Ireland has had its own bubble in terms of undeveloped land. This bubble is well and truly burst and I imagine this will be reflected in the values of the loans to be acquired by NAMA. For those who purchased during this market madness I can only say that, to my mind, there is no likelihood of a market recovery to the earlier peaks, in the foreseeable future. Just as with tulip bulbs centuries ago and internet shares not so long ago, it seems that there was a belief that one could buy, sell on shortly afterwards (flip) and make a quick turn. I believe we are all aware now that such action is unsustainable.

Not only is there a problem on the demand side of the market but we now have a huge concentration on the supply side of the market both with NAMA's acquired debts and I believe with other banks operating in this economy.

We have met with representatives of the Northern Ireland Housing Executive, whose Chairman is a member of our Committee and with the International Centre for Local and Regional Development in Armagh and with its partners the University of Ulster and NUI, Maynooth. We understand that there are advanced discussions in place between these organisations in relation to a collaboration on projects to map housing need and the availability of land to support this. This would help our task.

The recently published Report of the Independent Commission on the Future for Housing in Northern Ireland states that "Housing got us into this mess; housing can help pull us out" and recommends that "the concept of partnerships between the different sectors should now be taken to a new level". We are interested to hear if there is some role for NAMA in such a partnership process.

It is likely that the acquisition price paid by NAMA will be much lower than the £2 billion nominal value. But on the supply side there are also other banks which have significant positions in undeveloped land. We do not have to sell today, this month, or this year but we do have to operate to a ten-year time scale and even over such a period time it is likely that we will see what was previously viewed as potential development land being sold to go back to farm land. For those builders, developers and also land traders and speculators who got caught up in the frenzy there is going to be financial pain.

On the question of property and land in course of development where we have an estimate of £350 million we really do not yet have any sense of the make up of this figure but it is clear that the problem of uncompleted housing estates is tiny by comparison with that in the South.

The number of vacant properties has indeed risen from 4.9% of housing stock in 2001 to 44,000 or 5.9% in 2009 but I note that for 2006 when the level was at 5.7% the Housing Executive estimated that only about 4-5,000 units were excess or available to be brought back into stock. Whilst house building did indeed boom for some years it was far short of the levels experienced in the South and it has now contracted sharply. In this part of the island there does not appear to be a huge supply overhang of residential properties.

NAMA will have funds available to complete developments where this will enhance its security in and thus such investment makes financial sense. This policy objective is without geographical bias and therefore will be on a case by case basis.

The nominal value of loans secured on investment properties is estimated at £1 billion. The security will comprise of office buildings, shopping centres and a very small residential element. Again CBRE have provided some estimates on both the value of transactions in the normal market and in the years of the spike.

They have estimated that in the normal years at the beginning of this century, annual turnover in the investment market in Northern Ireland was at about £200 million. This increased to nearly £1billion during 2006/7 and has now fallen back to an expected £150 million for 2010. Therefore, it is clear that the NAMA-secured supply side of the market is significant in terms of normal turnover levels and there will be challenges in realising these assets. Consequently, NAMA will be prepared to consider structured financing proposals that could involve joint ventures, mezzanine debt, shared security, phased transfers of ownership, etc. We expect that the investment community and their financial advisors will, in due course, develop such proposals.

In summary, NAMA was created to provide stability to the financial institutions of the state. This extended to the operations of three of these institutions in Northern Ireland. As the UK government did with its bank insurance scheme, the Irish government has, through NAMA and other initiatives averted a meltdown in the banking system.

A speculative bubble was created in the Northern Irish market for development land. This was financed by extravagant lending by the NAMA participating banks and also by other banks in Northern Ireland. The transfer of these loans to NAMA will mean that the resolution of this bursting bubble can be effected over a longer timescale. In this respect, there is a convergence of interests between NAMA and the Northern Ireland economy. Our optimum realisation will be aided by listening to the advice that we, on the Northern Ireland Advisory Committee, receive from the various stakeholders in the Northern Irish economy.

On the investment front, NAMA will consider creative solutions that will facilitate an effective realisation of its assets. NAMA will be able to make available some limited funding where it makes financial sense to complete those developments that are currently only partially completed. NAMA will aim to provide a level of stability where it has a dominant position on the supply side of the market. It will then be for the business leaders and entrepreneurs within the community to lead the economic recovery.

What we must do, and which is in our interest as well as that of the Northern Irish economy, is to carefully manage the impact of the ending of the false boom in property values. The Northern Ireland Advisory Committee of NAMA is and will continue to be fully alive to Northern Irish economic issues and will advise the NAMA Board accordingly.

Thank you for your attention.