



**Address by Mr. Brendan McDonagh,  
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National Asset Management Agency**

***Corporate Restructuring Summit Thursday, 29th September  
2011***

Chairman, Ladies & Gentlemen,

Thank you for the invitation to speak to you at this morning's conference. It is good to have an opportunity to address you about NAMA and its activities and to update you on the substantial progress that has been made to date.

## **Progress**

During the last eighteen months or so, there have been four major areas in which we have focused our efforts, namely, securing EU approval, acquiring the portfolio of loans, recruiting staff and engaging with debtors.

EU approval was given at end February 2010. We have now acquired property loans with nominal balances totalling €72.3 billion and, in return, we have paid consideration of €30.5 billion in the form of government-backed securities to the five institutions involved. An additional €1.9 billion will be transferred shortly bringing the overall portfolio to just over €74 billion.

NAMA as an organisation has had to be built from scratch: over the course of 2010 and to date in 2011, we have recruited almost 200 specialists in property, banking, finance, law and other areas to ensure that the agency had the expertise available to it to manage the huge portfolio it had acquired. Staff were recruited, for the most part, nationally and internationally, from the private sector because the skills required tend not to be widely available in the public sector.

Finally, we are well advanced in our engagement with debtors which will be directly managed by us and we have put a process in place for the 5 financial institutions to manage the smaller debtors.

## **Commercial remit**

NAMA is, first and foremost, a commercial entity and its main focus is to recover for the taxpayer what it has paid for acquired assets plus any additional project funding, working capital and other costs. You might consider this to be an obvious point to make but its implications are far-reaching and not fully appreciated.

What NAMA is not, as some commentators seem to think it should be, is some form of convalescent home where with the passage of time every wound will heal itself so as to enable debtors to take time out from the consequences of their borrowing. Unfortunately Ireland does not have that luxury and in an ever more confused economic world, Ireland as a country needs to employ as many self help options as it can and that includes NAMA delivering on what it is required to do.

The consequences of the last decade of injudicious lending by the financial institutions and over-borrowing by debtors have to be faced up to today – neither debtors nor NAMA can ignore the harsh economic realities.

One of NAMA's major challenges has been to deal with the diverse and conflicting array of expectations that have been placed upon it by various interests and commentators. Our focus has been firmly fixed on the core commercial remit that has been handed to us by the legislature and, in that context, it remains our overriding objective that NAMA should fulfil its mandate in as short a timeframe as is reasonably practicable.

Needless to say, this does not mean that we force our debtors to engage in a precipitative fire sale of assets, a strategy which would be totally counter-productive and which may realise only a fraction of what the assets are intrinsically worth. Nor, on the other hand, can we afford to sit around in the hope that some fine day the current market malaise will cure itself miraculously. There is a balance to be struck between these two strategies.

We believe that, as a significant player in the property market, it is part of our responsibility to work with debtors and receivers to generate the transactions which will help to lift it out of its current stagnancy. That involves, amongst other things, ensuring that property is available, not at the aspirational values that have prevailed during the boom, but at prices that purchasers are actually willing to pay. Given

the size of NAMA's portfolio of property loans, supply is not going to be a major source of concern. Demand is a very different matter.

There are two major challenges to be addressed in terms of the demand side. In order to commit themselves, residential purchasers, not unreasonably, need some comfort that prices are at, or close to, bottom and that they will not be faced with prolonged spells of negative equity.

Secondly, potential buyers need access to bank finance. The banks, traumatised by the scale of their losses on commercial and residential property, are currently seeking to diversify their sectoral exposure away from property; they are also subject to deleveraging commitments to the Financial Regulator under PCAR2.

Some of the initiatives which NAMA is currently examining will be designed to address both of these challenges as they manifest themselves for commercial and residential property.

## **EU\IMF\ECB:**

The Government has agreed with the troika that NAMA has to generate €7.5 billion of cash by 2013, a target consistent with the NAMA Board's own Business Plan in July 2010. This target is driving our discussions with our debtors as it is an important milestone to achieve for the country as whole. To date we have repaid close to €1.6 billion of debt and expect to make another substantial repayment before the end of 2011 given our healthy cash balances.

## **Residential**

As noted above, initiatives are being considered by NAMA in the context of the residential market. The outlook for residential property is more clouded than for the commercial market, not least because it is more closely linked with the real economy and the overall outlook for employment, net pay and interest rates.

Mortgage lending was forecast at the start of 2011 to be €4.5 billion compared to €26 billion in 2008. As we have only seen Q1/2011 and Q2/2011 data which showed that €600m was advanced for residential mortgages in each quarter, I would have concerns that even the 2011 target of €4.5

billion may not be met. Banks have adopted a more restrictive approach to LTV (loan-to-value) ratios and will also take a conservative approach in assessing debt servicing capacity and affordability for residential mortgages.

Having said that, based on the volume of enquiries that we receive, it is clear to us that there is substantial interest from prospective individual buyers in residential property but mortgage finance is often referenced as a key inhibitor. I understand from the main banks that only 35% of approved mortgages are currently being drawn down.

As I mentioned , a key impediment to residential sales in the current market is a concern on the part of many buyers that prices could fall further and that, after purchasing, they could therefore find themselves in a position of negative equity for a long time to come. This concern is entirely understandable and it is one that we are looking to address in the initiatives that we are currently preparing and in discussions with the Department of Finance. We have had ongoing discussions with the two 'pillar' banks (AIB and BOI) and also with PTSB and these are now close to conclusion.

NAMA is not a bank and it will be not be the lender of residential mortgages. Our aim would be to unveil a product with the banks which meets a number of key criteria: one which generates sales of property controlled either by NAMA debtors or by receivers while providing an incentive to purchasers to invest at current prices in the knowledge that there will be a mechanism in place which will offer them protection against the risk of negative equity in the event that prices should continue to fall.

I should point out that NAMA is not going to be a lender to the residential mortgage market, that's a role for the banks, what we want to be is to be an effective facilitator as one of the holders of residential housing stock that is security for our debtors' loans. We would hope to trial it on a phased basis with up to 750 residential properties in Q4/2011 and during 2012 – it is a short term measure to try and aid liquidity and we will only utilise it as long as we have use for it and there is market support for it.

## **Debtors**



NAMA's impact on the property market over the next year or two will be felt, not only through initiatives such as those I have just outlined, but also through our engagement with debtors and through the receivership process.

Debtors are disposing of property as part of an agreed strategy with NAMA in order to reduce their debt and we expect that this will provide significant momentum to the property market in the coming years.

We have approved the sale of €4.6 billion of NAMA assets since 1 March 2010, much of it connected with properties in the UK and other overseas locations. We have also approved over €900m in new money advances to enable projects which are commercially viable to be completed or otherwise as working capital.

NAMA will make as much working capital and development capital available as its resources permit to support viable commercial projects – we will not commit capital to speculative projects, it is up to the proponent to make and justify commercial proposals to us so that we can make informed decisions.

At this stage, we have acquired the property loans of about 850 debtors which aggregate to a nominal €72.3 billion.

The top 180 largest debtors owe a total of €61 billion par debt – and these will be directly managed by NAMA staff. We will have reviewed the Business Plans submitted by these debtors before the end of 2011.

In the case of the smaller debtors (about 670 debtors with outstanding par debt of about €13 billion), their loans will be managed by the participating institutions under delegated authority from NAMA.

Each debtor is required to submit their business plans to their respective lending institutions. The institutions will review the plans and make recommendations as to their viability and NAMA will then determine appropriate strategies in each case.

This process has already begun and we expect that, by end year, a significant number of cases will have been determined – we are hopeful of at least 90% by value - with the residual plans analysed as early as is feasible in 2012.

## **Restructuring**

NAMA does not offer debt forgiveness but we have to be realistic that if the €74 billion of loans we have purchased are only backed by property assets worth €31.5 billion then that is the amount we can be expected to recover – we would of course aim to recover more but that is very much dependent on Irish and worldwide economic recovery at growth rates that are currently considered to be unlikely.

We reserve our position on debtors' indebtedness until all the assets are realised and we will make an assessment at that stage as to the most appropriate course of action based on the assiduousness and behavioural attitude shown by the debtor in trying to help NAMA and the taxpayer realise the maximum amount.

When NAMA has assessed a debtor's Business Plan there are 5 main courses of actions we will pursue with a debtor:

**1. Full Restructure:**

A strategy to pursue a full restructure of the acquired loans implies that new loan documentation will be issued and new security will be taken (or existing security will be retaken).

This strategy is generally required where significant documentation gaps exist with a view to giving NAMA a better option to monetise the loan portfolio at a future time.

The full restructure will include a Connection Management Agreement (CMA) which sets out the financial as well as the behavioural conditions which NAMA insist upon as part of the restructure.

The full restructure will retransche the existing par debt into Loan A full interest bearing debt, Loan B non interest bearing debt (but with a back end fee of up to 25% payable to NAMA) and Loan C which includes any new monies advanced by NAMA for working capital and capital expenditure.

## **2. Limited Restructure with a Connection**

### **Management Agreement:**

A strategy to pursue a CMA restructure of the acquired loans implies that a Connection Management Agreement will be issued to govern facilities that remain subject to existing loan documentation and existing security. Such strategy may include the perfection of some parts of the

existing security or the pledge of new security by the debtor. As with a full restructure, the CMA restructure will typically incorporate Loan A, Loan B and Loan C categorisations.

### **3. Letter of Support:**

A strategy to provide a Letter of Support for the acquired loans implies that the loans will not be restructured and will remain governed by the existing loan documentation, most likely subject to additional conditions applied by NAMA and documented in a Letter of Support. Additional security will be taken separately with respect to any unencumbered assets. The strategy is also referred to as a Trial Period and is limited to a maximum period of 12 months. At the end of this trial period NAMA will make a decision on which further options to pursue.

### **4. Disposal Programme:**

A strategy to pursue a disposal programme implies that the underlying assets (typically property) will be sold in the short-term (within 24 months); this will preclude the need to incur costs making amendments to existing loan agreements or supplementary agreements with the

Debtor. Loans may also be sold under a loan disposal programme. The programme may be agreed following a review of the business plan or in the absence of a business plan. It may also be pursued voluntarily or through enforcement.

## **5. Enforcement:**

An enforcement strategy implies that an appropriate Delegated Authority has or will approve the appointment of an insolvency practitioner to one or more of the assets acquired by NAMA. The appointment will cover the majority of asset value for the Debtor Group but not necessarily all assets in the Debtor Group. Cases with partial enforcement, i.e. covering a minority of the asset value, will be classified based on the strategy applying to the majority of asset value for the Debtor.

## **Loan Sales**

This will form a major part of NAMA's strategy going forward now that we are almost through the debtor business plans and we have gleaned considerable knowledge about the assets and the debtors.

This week we have issued a RFP to the market under EU Tendering competition rules seeking to appoint a panel of Loan sale advisors in both the USA and Europe. Details are on the website [www.etenders.gov.ie](http://www.etenders.gov.ie) and [www.nama.ie](http://www.nama.ie)

From these panels we will appoint advisors to design and sell individual loans and whole debtor connection loans.

### **International Investors**

An inflow of capital from abroad will be necessary and welcome but, even in the case of foreign investors, there are significant obstacles to attracting investment at present, not least the current economic and fiscal uncertainty associated with Ireland. The outlook for Ireland is improving but it is interwoven with the ongoing euro crisis and the limited availability of international bank funding.

Uncertainty about possible changes to existing lease contracts with respect to rent reviews in Ireland is also a significant issue holding back potential investors, but I am hopeful this will be clarified soon by the Government so the market can digest it and move on.

While commercial property may appear to be well supported by the strong performance of certain sectors of the economy, domestic investors will continue to be wary given the fact that many of them are already over-exposed to Irish commercial property.

Foreign investor capital has hardly featured in the last ten years in the Irish commercial property market and in 2010 only about €75m was invested by foreign investors (some German funds) – a welcome development but hardly significant. €150m was invested in first half of 2011. The peak in terms of commercial investment transactions was €3 billion in 2006 – all involving domestic investors and a lifetime ago in terms of where the property market and the banking system are now.

My colleagues and I spend a great deal of time each week meeting potential investors at our offices, at conferences such as this and indeed at their offices, primarily in London.

The absence of international investors in Irish property over the last 10 years and the impact of Ireland's admission into the arms of the troika does mean that Ireland does not figure high on their investment radar. They are far more used to deploying their capital elsewhere, particularly London.



We also have developed relationships with sovereign wealth funds mainly at the decision-making level as they have access to capital that is not dependent on debt.

However, that picture is changing: international investors look to Ireland as a recovery story where they believe there may be value and opportunity – the recent improvement in Irish bond yields is very much a welcome development which differentiates Ireland from the other peripheral nations.

Needless to say, we also meet the tyre kickers, the intermediaries and the bottom fishers who want to pay us 50% less than what we paid the banks for the assets and they maintain they are doing the Irish taxpayer a favour by introducing capital and transactions. I would never say never but thankfully NAMA has maintained itself in a strong cash position to avoid taking up such offers as it is not in the Irish taxpayers' interests to firesale assets at those prices which would result in additional losses.

The serious investors have a number of key criteria:

- (a) the stability of the legal and political system

- (b) the asset
- (c) the investment opportunity
- (d) taxation
- (e) entry and exit costs
- (f) the economic prospects of the country where the asset is located

NAMA and the other banks which are deleveraging assets have to be innovative and think outside the box to attract buyers into the Irish market.

### **Commercial Property**

To address first the challenges posed by the commercial property market. Commercial property in Ireland is down about 63% from its peak levels in 2007. The recent Central Bank PCAR2 stress-testing exercise on bank assets included a baseline scenario which envisaged a slight fall in commercial property prices in 2011 followed by slight increases in each of 2012 and 2013.

Taking account of the long-term relationship between commercial property prices and economic growth, we know that, for much of the past decade, prices had accelerated well ahead of GDP growth and that they have now corrected to

levels where we would have expected them to be had the price bubble not taken place.

NAMA has been exploring ways in which it could contribute to getting the property market moving again. Among the key elements of any functioning market are supply, demand and liquidity. Supply is clearly not an issue in current circumstances. Nor is demand: after the significant price corrections of recent years, there is strong indicative interest from investors, mainly foreign in purchasing Irish commercial property.

Leaving aside a minority of potential investors who are interested only in picking up loans or property at rock bottom fire sale prices with the idea of making a quick profit and making a quick exit, we have seen a lot of interest from professional investors who have a more long-term performance horizon in mind and who are interested in acquiring strong income-producing assets which will provide a steady return over time.

The key constraint, as we see it, is neither supply nor demand but liquidity. The current reality is that banks generally – and not just those based in Ireland and the UK - are reluctant to underwrite large scale lending to a single

venture, particularly if it involves commercial property and particularly if the funding requirement is substantial.

NAMA can facilitate the provision of debt finance to purchasers of Irish commercial property which is either under the control of NAMA debtors or of receivers engaged either directly or indirectly by us. This type of financing (known as stapled debt or vendor financing) is a well-established method used by financial institutions and investors in cases where liquidity would not otherwise be available.

NAMA's main objectives would be to generate sales transactions which might not otherwise take place and to attract new equity which will deleverage its debt exposure. We hope to be offering the first such staple finance package on an Irish commercial real estate asset to the market in the next week – this will be a new NAMA innovation and it will test the market appetite for such transactions.

In terms of the entities to which NAMA would make stapled debt available for commercial property, clearly we would have to be satisfied as to their track record, reputation and capacity to repay. They would have to be in a position to inject equity capital of 25% - 30% upfront. This would result

in an immediate pay down of NAMA debt and would create a performing loan. The assets involved are likely to be commercial investment assets which are well-tenanted and income-producing, for instance, large office buildings, shopping centres and other retail and industrial properties; it is rare for stapled debt to be used for the acquisition of assets which are not income-producing, such as land or buildings which are either partially completed or completed but vacant. However, we would not rule this out in exceptional cases if there was a compelling business case to do so.

## **Exiting NAMA**

We are often asked how do debtors exit NAMA? My answer is quite simple: the market and macroeconomic worldwide conditions will determine this. At the current time we are determined that we are not going to sell portfolios of properties or loans at values below what we paid for them, we may take some limited loss leaders on individual assets to promote activity but that will be very small in the overall context.

If there is one key message I can ask you to take away from today it is: there is no point approaching us with an offer

which is significantly below what we paid – it is a waste of your time and ours as it is unlikely to be entertained. NAMA can stabilise and support a debtor who is innovative and commercially realistic – it is in our interest that debtors exit NAMA back into the banking system in an orderly way – we are not a debtor’s long term bankers but in the current difficult times we can help stabilise debtors who wish to collaborate with us.

I will not pretend that it will be easy or always palatable for either side but there should be enough common sense and purpose to know that a workable accommodation is in our mutual interests.

## **Conclusion**

We in NAMA are now very much focused on our engagement with debtors and I am pleased to say that that engagement to date has, for the most part, been tough but reasonable. There is a bumpy road ahead but most debtors are realistic and are willing to make the necessary sacrifices and want to work their way out of difficulty and NAMA wants to help them to survive.

At NAMA we have a very simple maxim, if the taxpayer is being asked to keep a debtor in business, it would seem to be a matter of basic common sense that the debtor would not seek to maintain a lifestyle that is beyond his current means. It is inappropriate draws unnecessary media attention and it takes away from the many genuine debtors who are doing their level best to survive and they are making sacrifices.

I urge debtors to engage with NAMA, we are realistic, but you have to meet us halfway. We want to try and achieve a consensual workout; it is the optimal way to find a solution to a very difficult problem in the interest of all our citizens.

NAMA has many other stakeholders besides debtors and taxpayers. We are expected to have views on planning, provide a social dividend, meet Government expectations, manage debtors, deal with the banks and meet targets set by the EU\IMF\ECB troika on debt pay down – all of these are legitimate and valid but, while we are not and cannot be a panacea for all Ireland's ills, we are determined to play our part in the economic recovery of Ireland.

NAMA by the sheer scale of the loan portfolio it has acquired from the banks and building societies (which they built up

during the latter years of the Celtic Tiger, particularly 2003 to 2008) has a local, national and international dimension that will influence how we are perceived. Everything NAMA does, however well-intentioned, well researched and made with the objective of fulfilling our commercial statutory remit, is likely to be commented on favourably and unfavourably. The Board and Executive understand that but I assure you that whatever decisions we make it is for the right reasons without favour, influence or bias.

Chairman, Ladies and Gentlemen, thank you again for the invitation to address you this morning and I very much hope that you found it useful.