



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

ICSH Wednesday, 28th September 2011

Minister, Ladies & Gentlemen,

Thank you for the invitation to speak to you at this morning's conference on the subject of "**The new national context – opportunities and challenges**". 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. I will also outline how I believe that NAMA can work with statutory agencies and housing associations in shaping housing policy in Ireland:

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 €2 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 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 and NAMA can ignore the harsh 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 hangover 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 have agreed with the troika that NAMA has to generate €7.5 billion of cash by 2013, this target was 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.

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 this year and into 2012 and 2013. 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 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 of 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.

Opportunities

In relation to NAMA loan assets which include residential housing stock as security, we are open to considering all opportunities for putting completed residential housing to use. It is not NAMA's role to make policy but we are willing to play our part. With potentially 100,000 people on waiting lists after a sustained economic and property boom, it is almost incredible that this position should exist while there are potentially 50,000 residential units lying vacant all over the country. In terms of reviewing options on our portfolio of 10,000 residential units, NAMA continuously scrutinises all available (and emerging) detail, both on housing market conditions and on sectoral areas of housing. We maintain close engagement with the Department and The Housing and Sustainable Communities Agency amongst others.

This is to allow for:-

- (i) Compiling and monitoring of a database of the residential housing portfolio which falls within the assets of NAMA, (work that is ongoing as we complete due diligence on the portfolio of loans we bought from the financial institutions),

- (ii) Alignment of this with housing by location and type which might be deemed suitable for social housing use, The Housing and Sustainable Communities Agency is analysing the NAMA asset database, to identify the quantum of such units to see how many are potentially suitable.

This reflects the content of the Department's Housing Policy Statement of June 2011.

'Delivery of permanent, new social housing:

There is obvious potential, across a range of housing programmes, for the Government's objective of sourcing and providing suitable residential units for use as social housing, to be aligned with the commercial objectives of NAMA. The Government will vigorously pursue options for securing a social dividend through the sourcing – both acquisition and leasing – of suitable residential stock for social housing purposes, while providing a return in line with NAMA's mandate'.

In terms of shaping housing policy, NAMA's contribution has been and will be in preparing initiatives for monetising our housing stock, through the ownership sector, the private rented and managed market and the social housing sector; all with the objective to get the our existing housing portfolio into productive use wherever possible.

We are doing this by:

(1) NAMA is firmly engaged with all relevant stakeholders.

(2) NAMA's commitment to examining new ideas, from within and without our organisation – we are looking for a win\win

(3) showing flexibility when adapting to policy changes by Government and market conditions

(4) NAMA focus on implementing policy in practice – NAMA is mandated to ensure assets are disposed of/utilised to best effect; the dynamic is always centred on delivering within our mandate.

It is important that it is understood that NAMA is not the sole determinant as to how residential units can be put to use; borrower/receiver intentions play a part, and legal issues have to be managed, property is not a simple asset and the whole legal system around registration of title is archaic. These and other matters can have an effect on the ability of NAMA to make residential units available and on the timeframe within which this may happen.

In relation to social housing we note the Department's Housing Policy Statement June 2011, which asserts that approved housing bodies will be at the heart of the Government's vision for housing provision. Specifically it states,

'use of loan finance (from both commercial lending institutions and the Housing Finance Agency) has the potential to develop a stronger, more

sustainably funded voluntary and co-operative housing sector, playing a much more active role in the supply of social housing without reliance on capital funding from the Exchequer’.

NAMA is contributing to this by pro-active involvement in opportunities where specific units within a NAMA asset have been identified as suitable for social provision, and by working with the various stakeholders to ensure the transfer of those units as expeditiously as possible. The purchase of 58 apartments at Sandyford, from a NAMA-appointed receiver, by the Cluid Housing Association, is an important working example of this strategy.

In relation to the making housing available for acquisition, NAMA must take all steps necessary or expedient to protect enhance or realise the value of assets. NAMA is being and will be pragmatic in this regard in the context of current market conditions and economic circumstances.

There can be complexities involved in progressing housing units, from identification as potentially suitable for social provision, through to the final acquisition for this purpose. Matters such as the status of the units themselves, the intentions of the borrower/receiver, will be relevant. In terms of acquisition by the social housing sector, the sector can engage more effectively with the owners of the property, and with the statutory agencies, if it is clear on its funding sources and has a well defined management and governance process.

NAMA will step up to the mark where it can play a role. NAMA is a participant in the National Co-ordination Committee on Unfinished Housing Developments and has pushed ahead on the immediate issue of public safety/making good at current unfinished estates within its assets. We have allocated €3m to date to deal with 31 Category 4 estates – those that have the most serious issues.

NAMA is working closely with the Department of the Environment on its Development Plan GIS System. This will be an invaluable tool for all parties to the planning process.

The outlook for residential property in Ireland depends very much on location and on local supply/demand conditions. Many of the NAMA units are not suitable due to the type of property it is or there may be an existing over concentration of social and affordable housing in the particular location.

The Key issues to be addressed are:

- Identification of housing or housing sites located in areas patently not suited or required for current housing need,
- There are locations where housing demand either exists or is likely to return much more quickly (such as the city areas). A view is needed as to the best tenure options (and including property management) and to whether changes to housing type are merited, where planning consent exists but has not

been implemented. This will require Planners and Local authorities to be imaginative.

- Providing prospective purchasers of housing with some confidence. On foot of dialogue with the Department of Finance, NAMA is currently in discussion with a number of Government Departments about the workings and potential impact of a residential mortgage proposal scheme.
- I believe that the provision and delivery would be greatly assisted by the various Housing associations coming together and continuing to consolidate their resources. This would deliver greater critical mass along with a uniform approach when dealing with potential providers of housing. It would also further strengthen your voice in dealing with Government and Local Authorities.

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 draws unnecessary media attention and it takes away from the many genuine debtors who are doing their level best. 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 we are not and cannot be a panacea for all Ireland's ills.

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.

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