

Address by

Mr. Frank Daly, Chairman of NAMA,

to the Dublin Chamber of Commerce

Thursday, 9th February 2012

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Introduction

Good evening everybody. I'm delighted to have the opportunity to address this AGM Dinner tonight - not just to join you in wishing Patrick every success during his term as President – but to acknowledge the importance of the Chamber's role in the business life of Dublin and to salute each of you here for the contribution which you make in your various enterprises to the economic life of the city, the region and the wider country.

Tonight I want to address a number of points about NAMA and in doing so, I hope, address some of the more topical issues which have arisen about the Agency.

But first I should acknowledge the common objective which the Agency shares with everyone here tonight (and everyone in business in Dublin) in seeing the fortunes of this country and this city revived in the coming years.

Such a revival is critical if we are to recover our economic sovereignty and provide viable futures for our communities and for our young people in particular.

And, of course, for us in NAMA, such a revival is vital if we are to recover the greatest amount possible for the Irish taxpayer. In that context the Dublin market is obviously a key one for the agency because so many of the loans which we acquired from the Irish banks are secured by residential units or retail units or offices or factories across this city.

No more than yourselves in your own businesses, we understand that we cannot simply sit on our hands and wait for good things to happen. We have to take initiatives and do what we

can to drive recovery. For that reason we are examining how we can encourage transactions in the property market here by the use of innovations such as staple finance, or Qualified Investment Funds or initiatives for the mortgage market.

The good news is that our ongoing engagement with potential investors suggests that there is growing overseas interest in acquiring Irish commercial assets, particularly prime office and retail properties in Dublin with good covenants and attractive yields. The scale of the fall in commercial property prices from peak – 65% according to IPD data - has meant that yields on investment assets have reached very attractive levels (8% plus). Measures announced in the recent Budget, including the substantial cut in stamp duty, the new Capital Gains Tax incentive relief and the removal of uncertainty over rent review legislation, are also likely to give the market a substantial boost.

More about these in a moment.

NAMA commentary

But I want to begin by addressing a number of issues about the agency that seem to cause regular comment, particularly the question of transparency and NAMA's treatment of debtors.

Much of the debate about NAMA ignores the fact that the overriding mandate given to the Agency under the legislation passed by the Oireachtas is a commercial one: essentially, to recoup for the taxpayer at a minimum what has been paid to the banks to take the loans off their balance sheets. NAMA has paid €31.8 billion for the loans and the burden of recovering that is a massive and onerous one.

That commercial mandate underpins much of the day-to-day decision making we undertake – whether it's about deciding policy in respect of individual debtors or setting broader strategies in relation to managing our portfolio of loans and underlying securities.

It also informs our recruitment policy for staff and to carry out this mandate, we have recruited close to 200 staff with specialist skills and experience in property, banking, finance,

law and related disciplines. The vast majority have been recruited from the private sector, predominantly from the Irish property and banking sectors. It could not have been otherwise. The reality is that we could not have transplanted 200 experienced professionals from the UK or other jurisdictions to carry out this work, particularly given the economic circumstances prevailing in Ireland in recent years.

Transparency

Another major implication of NAMA's commercial mandate is the extent to which we can disclose detailed information about the loans that comprise our €32 billion balance sheet, the properties securing them and the debtors to whom they were advanced. I know this causes many observers great difficulty – although I'm also struck by the irony that banks in this jurisdiction who are not in NAMA but who are collectively managing similarly sized portfolios are never challenged on this issue at all.

There are two aspects to our policy on transparency. The first is that we are legally constrained from disclosing this information by virtue of the NAMA Act and banking confidentiality and data protection law generally.

Secondly, even if we leave aside legal and legislative constraints, disclosure of detailed information on debtors, loans and property would, in my view, fatally compromise our commercial mandate.

On a daily basis, we are in discussion with international investors, private equity firms, large property companies and others who, by and large, are experienced negotiators. We will probably end up doing transactions with many of them.

Many of you are business people who are engaged on a regular basis in negotiating and closing out transactions, be it mergers, acquisitions or the purchase or sale of assets. I do not have to tell you how absurd your negotiating position would become if the parties with whom you are negotiating had full sight of your hand of cards. This would be commercial madness.

As I have said before, we can be transparent or we can be commercial but we cannot be both simultaneously. Our statutory remit is to operate on a commercial basis and, unless that remit changes, we propose to continue on that path.

Decision making

One of the criticisms levelled at the agency is that it is slow to make decisions. This criticism has been aired again – not surprisingly this always seems to arise just after we have undertaken a round of enforcement action against some of our debtors.

But perhaps we should let the facts speak.

By now, we have assessed the business plans that lie behind 95% of the loans on our balance sheet. That's over 600 individual debtor business plans and the debtors concerned know where they stand with us. That is not to say the debtors like what they are hearing from us but we do see it as our job to bring a reality check to the situation.

For the majority, we have indicated that we will work with them as long as they are willing to co-operate in terms of maximising the value that can be realised from their loans and associated properties. This means, among other things, that they will have to sell property in order to be in a position to make phased debt repayments.

It also means that they will have to grant us charges over unencumbered assets and to reverse asset transfers to relatives and others. We have made good progress on this to date: we have been granted charges over assets with an aggregate value of €221m and have succeeded in reversing asset transfers totalling €160m. We expect that once this process is concluded the aggregate value of these unpledged assets may prove to be in the region of €500m. A substantial figure - one way of looking at that, for example, is that it will go some way to covering the operating costs of the Agency over its lifetime.

As for the efficiency of NAMA decision-making, we have made 6,000 individual credit decisions since the end of March 2010 and the average turnaround time for credit decisions is now less than 6 days. Clearly there are outliers but this is understandable if the decision being made is complex and there is a lot of taxpayers' money at risk. The average turnaround time is the time that elapses between the point at which we receive a credit application and the point at which a decision is made. It includes time spent evaluating credit proposals which may involve major asset sales, requests for additional funding or loan extensions, among others. To date, we have approved close to €1 billion in advances of working and development capital to debtors and approved asset sales valued in excess of €7 billion. Clearly, because we are dealing with taxpayers' money, we have to be rigorous in evaluating proposals but slow and lumbering, we are not.

Debtors

The reality for us is that we have spent a huge amount of time dealing with a relatively small number of debtors who simply have not been able to acclimatise themselves to the new reality. They seem to believe that the taxpayer, through NAMA, should not concern itself with their unencumbered assets or assets that they transferred to relatives but they seem to have no difficulty with foisting their debts on the taxpayer. And heaven forbid that they should have to scale down to the more modest lifestyle that befits their actual current circumstances.

Next time you hear some typically anonymous comment about NAMA being slow and lumbering, you can assume that in the background is probably some debtor or indeed low balling investor who is pushing his own financial agenda but is happy to camouflage it in terms of the national interest. Frankly, we would much prefer to be in a position to set out the true facts in these individual cases so that the public would know exactly what is going on but we must, and do, take our legal obligations - in terms of protecting debtor confidentiality - seriously.

Our commercial mandate also dictates how we deal with debtors. Yes, we do allow some of them to keep part of the income from their income-producing assets to pay overheads,

including salaries to them and their staff. What, may I ask, is the alternative? Perhaps that they and their staff would simply work with us for the next seven years without any income - but that is just unrealistic. The reality is they would walk away. And what then? We appoint receivers over their assets. Would that produce a better outcome? In a minority of cases, it would, but usually those best placed to maximise the value of assets are those who are most familiar with them, provided there is a spirit of trust and cooperation built up by us in the debtor. In some instances the trust NAMA hoped we had in the debtor has gone and the breakdown is irreconcilable.

Some debtors' operations, even where they may wish to work with us, are just not sustainable: they have accumulated substantial debts for assets and activities unconnected to NAMA and we just cannot fund that. We have to make a commercial call in each case: what is likely to yield the largest benefit to the taxpayer?

I need to repeat here something I have said before – our overriding preference is to work with debtors where they have a reasonable chance of survival and are willing to work with us and we can trust each other. We regard enforcement as a last resort. And on a more general point, it must be asserted that as a country we will need a healthy property sector in the future and we will need some of those now classed as debtors in NAMA to be responsible players in that functioning property sector of today and the future – back in business, still entrepreneurial, but hopefully quite a lot wiser.

Outlook

The scale of the rise in Irish property prices between 2001 and 2007 was well above the magnitude of any normal cyclical upturn in prices. The precipitous fall in prices since then - of the order of 60% on average - has also been well beyond the magnitude of any normal cyclical downturn. Therefore, in dealing with the aftermath of these tumultuous price swings, we find ourselves in uncharted waters. Some property experts take the view that prices are close to bottom but there can be no certainty of this, although there is strong reason to expect that commercial prices will stabilise this year. The recent changes in the Budget on stamp duty and capital gains should help the Irish property market.

Any attempt to forecast what may happen in property markets beyond the immediate future is fraught with difficulty, not least because of the level of uncertainty currently prevailing in global financial markets.

I note the recent IMF forecast that the Euro area economy will go into a mild recession in 2012 as a result of the turmoil in the sovereign bond markets, the impact of bank deleveraging and of fiscal consolidation. This uncertain European outlook clearly has implications for Ireland and for the UK where, combined, 94% of the property securing our loans is located. The NAMA Board is right now reviewing its strategy to take account of recent developments and, while there will be refinements and enhancements, one critical objective of repaying senior debt by 2020 remains intact. This will not be easy but we are developing strategies to monetise the portfolio including vendor finance, deferred mortgage initiative, QIFs, loan sales and, of course, conventional property sales by debtors and receivers.

Financial targets aside, NAMA fully recognises the role that it must play as a catalyst for a renewal of sustainable activity in the Irish property market. All assets are, of course, for sale at the right price but we intend to ensure that a significant quantum of Irish-based assets controlled by our debtors is offered for sale over the next number of years. The actual sales achieved in any particular year will depend on the absorption capacity of the market but we see it as part of our job to take whatever measures we can to get the Irish commercial and residential markets back to sustainable levels of activity. That is the justification for our proposed deferred mortgage initiative, our vendor finance initiative for commercial market and our proposals in relation to Qualified Investment Funds. The recapitalised banks have to play their part also in not only making credit available to business but also to a right sized property sector.

We are also about to begin an active loan sales process, having recently established two sales advisory panels, one for Europe and one for the US. Loan sales will enable us to monetise the loan portfolio and thereby reduce our balance sheet. We will also pursue an active marketing strategy for loans and, with the consent of our debtors, for the property assets securing them.

Conclusion

The Government's actions in reining back the Exchequer deficit and the recent positive response from the sovereign bond markets provide a favourable backdrop in terms of attracting international funds into Ireland. I do not need to tell you how difficult the road ahead may still prove to be but we are beginning – just beginning - to regain control of our affairs. Our experience in NAMA, based on our discussions with foreign investors, is that Ireland is now perceived to be a positive story internationally. Indeed the external perspective on Ireland seems to be a lot more positive than our own.

And this brings me to a final point I'd like to raise, speaking personally, and that is about the quality of public discourse in this country.

I spent a lot of my career as the face of the country's tax collection agency and I'm working now as Chairman of one of the most controversial bodies ever established here so I think I've a thick skin when it comes to criticism about the work that I do or the organisations that I work for. It went with the old job. It goes with the new one too.

But even with my experience I'm struck now by the almost relentless criticism and cynicism which currently dominates our public debate. I worry about the corrosive effect that this is having on our institutions of State and on our national morale.

Vigorous debate and healthy scepticism about policies, objectives and strategies is one thing. But this must be balanced by reason, fairness and objectivity and, difficult as it is to expect, patience. I think these qualities have been sorely lacking in the public discourse over the past three or four years.

This isn't simply borne out of my experiences with NAMA – though I should make the point that when I see the hard work, exceptional dedication and tremendous skill displayed in the

national interest on a daily basis in Nama by a relatively small team of people, I simply don't recognise the caricature that some commentators criticise.

But the cynicism isn't just about NAMA, it's about almost everything now; our immediate reaction to every suggestion, proposal, idea, is to knock it; to distrust those who promote it and to criticise those who support it.

This country still has a tough road to travel and we'll face many challenges along the way but as a society we need to begin now to prepare for what this country will be like *after* the crisis has passed.

When I am optimistic I believe that the next generation will learn from our mistakes and emerge stronger and healthier and more confident. But at times I fear that a lasting legacy may be an increasingly bitter and cynical public contemptuous of authority, distrusting of success and inhospitable to ambition.

We must try to make sure that doesn't happen.