

**Address by Mr. Frank Daly,  
Chairman of the National Asset Management Agency  
Licensed Vintners Association  
AGM Lunch**

*NAMA: progress and outlook*

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**Progress by NAMA in first year of operation**

To date, we have acquired €72.3 billion in loans from the five participating institutions and have paid them consideration of €30.5 billion in the form of Government-guaranteed securities. They, in turn, can use these securities as collateral with the ECB in exchange for cash.

We have acquired the property loans of about 850 debtors: the loans of the largest 175 debtor connections, accounting for €61 billion of debt, will be managed directly by NAMA; the rest will be managed by the institutions under our delegated authority.

We may acquire up to €3.5 billion in additional loans over the coming months; these have been held up by litigation and by eligibility appeals.

Furthermore, the EU/IMF Programme published last November stipulated that we would acquire the land and development loans of AIB and Bank of Ireland debtors whose debt is less than €20m. These are loans we had not been expecting to acquire and we have noted that the Programme for Government indicates that it is not the Government's intention that these loans should be transferred to us.

## **Role of NAMA**

Essentially, NAMA's function is to cleanse the balance sheets of the participating institutions of their commercial property loans and thereby enable those banks, with the liquidity created by NAMA securities, to refocus their attention on productive lending to businesses and to individuals. The terms "toxic bank" and "bad bank" have been widely used to describe NAMA but they are misnomers – NAMA is, in fact, an asset management agency which initially manages a very large portfolio of loan assets but which, more and more over time, will find itself dealing with property assets.

NAMA's key objective is to generate a commercial return for the taxpayer over time (its lifespan is expected to be seven to ten years). I mentioned that NAMA had paid €30.5 billion for its acquired loan assets to date. That consideration, by and large, represents the current market value of the property and other assets securing the loans. NAMA's task, over the next seven to ten years, is to recover that amount for the taxpayer through debt repayments by debtors or asset sales.

In addition NAMA has to recover whatever it has invested to enhance property assets underlying those loans. The cash that it generates either from debtors (receipts of debt interest and principal and the proceeds of asset sales) or from its own direct control of assets will be used to repay NAMA debt thereby reducing the debt burden of Ireland as the Minister for Finance has guaranteed NAMA's debt issuance.

NAMA's Business Plan proposes to pay back its debt on a phased basis by 2019 and, in that Plan which was published in July 2010, we outlined various interim bi annual debt reduction targets. In fact, we have already begun this process – bonds totalling €250m were redeemed in recent weeks and we intend to continue to redeem debt whenever an opportunity presents itself. Of course if NAMA is to repay its debt, then our debtors must repay NAMA and, having spent much of last year acquiring loans, our focus has now shifted very much to engaging with debtors and the assets with this debt repayment objective in mind.

After their loans have transferred to NAMA, debtors are asked to produce business plans which set out how they propose to reduce their debt. The Agency has already

concluded its review of business plans from the largest 30 debtors which account for approximately €27 billion (40% of portfolio) of acquired loans.

These have been challenging and complex but we are now very well versed in the affairs of each of these largest debtors. We are now proceeding to review draft business plans submitted by the rest of the debtors whose loans will be directly managed by NAMA staff - approximately 145 of the Top 175 are due in 2011.

It is our objective to have all these major debtor business plans reviewed by year-end – however I would stress that this depends on the timely submission of plans by debtors. We are having to put pressure on some debtors to actively engage in this work. I find it surprising that we should have to be doing this – enlightened self interest on the part of the debtors should have been enough of a driver.

Of the top 30 reviews completed to date, agreement in the form of Memoranda of Understanding has been completed with eleven debtors; agreement is at a final stage with six more and still in negotiation with another eleven. Two debtors are in receivership.

It is likely that enforcement action will follow for some of those in negotiation as some debtors are making little effort to progress matters and have not yet adapted to the new realities some three and a half years after the property market collapsed.

NAMA has also approved the sale of an estimated €2.7 billion (to end February 2011) in property assets held by debtors; these funds will be used to pay down debts either to the Agency which in turn is likely to further repay the participating institutions. Some of the funds realised are also being used to pay down debt owed by borrowers to non-NAMA banks where they had co-lent on developments. Furthermore each of the Memoranda of Understanding agreed with debtors includes a schedule for the orderly disposal of properties over a number of years. This disposal process will commence very soon and we expect that it will provide significant momentum to the property market. The very real difficulty and market reality however is the lack of finance available from the banking sector to potential purchasers and this presents a serious challenge to achieving NAMA's objectives.

NAMA also has the power under the Act to borrow up to €5 billion for the purpose of advancing new money which will enable unfinished developments to be completed or which will otherwise enhance the value of assets. So far, up to end February 2011, NAMA has approved close to €730m in new money advances generated out of its own resources without the need of having to borrow in the market. We also have close to €1 billion cash at hand – this is remarkable for an organisation that received EU approval to commence operations just one year ago.

### **Business Plans**

Let me make a few points about the process undertaken by NAMA in respect of Business Plans.

Some critics have claimed that NAMA demands an extraordinary amount of information in Business Plans. We make no apologies for that and indeed it has been essential in getting a clear handle on the detail of some very complex and troubled operations. That said, we are always conscious of the need to minimise the administration burden where we can do so consistent with getting all the information we need to protect taxpayers interests.

Consequently we now have two versions of the NAMA Business Plan.

The first, which applies to the major debtors whose loans transferred as part of the first three tranches, required provision of detailed and comprehensive information by the debtor to NAMA.

Business Plan Version 2, which is a streamlined version of the original business plan, applies to the majority of debtors whose business or loans are less complex than the Top 30 debtors. This Plan is to be submitted either to NAMA directly (if the debtor is one of those whose loans are directly managed by NAMA) or otherwise to a participating institution. If a debtor falls into the former category (NAMA-managed), he will receive a letter from us identifying the NAMA Portfolio Manager with whom he will be dealing and proposing a deadline for submission of his Business Plan.

Business Plan Version 2 also applies to those debtors whose loans are to be managed by the participating institutions on NAMA's behalf. In these cases, debtors will submit their plans to the participating institutions (who will also assign a manager to the loans on behalf of NAMA) and, based on the plans, the institutions will draft a strategy for submission to NAMA for final approval.

Essentially in the Business Plan, a debtor is asked to submit information about his loan facilities, the assets securing them, any unencumbered assets that may be available and general financial information. He then outlines his debt repayment and asset management strategies: these may include asset sales, completion and sale of developments, repayment of capital and interest from income and refinancing of existing liabilities. NAMA's primary objective in its engagement with debtors is to achieve significant debt reduction within a three/four year period.

Obviously, the debtor business plan review process can go one of two ways. For some debtors, the review will culminate in an agreement with NAMA which will involve a restructuring of their debt and the setting of debt repayment targets (e.g. debtors achieving 25% debt reduction by 2013, primarily through asset sales). In addition, depending on circumstances, debtors may be required to reverse asset transfers which have taken place over recent years and to grant legal charges to NAMA over their unencumbered assets in return for NAMA support.

Other debtors will be unable to prove that they have the capacity to meet their debt obligations even if their debt were to be restructured. It will be necessary, therefore, for NAMA to approve or take enforcement action against these debtors and to realise the value of the underlying assets (usually property) securing their loans.

Unfortunately, it has been necessary for NAMA to approve the appointment of receivers in 41 cases to date. However, our overriding objective is to achieve consensual workout for the mutual benefit of the debtor and NAMA wherever possible – this depends on the debtor having the correct attitude and being open and transparent with us so we can work with them.

## **Hospitality sector**

There has been much comment on the extent of over-capacity in the hotel sector and on the role that NAMA could play in reducing such capacity.

We all know that there has been a significant increase in capacity in the sector since 2005, an increase fostered by a high level of investment which in turn was largely driven by tax incentives.

This availability of additional capacity has coincided with a significant drop in overseas visitors (from 7.7 million in 2007 to 5.6 million last year) and also with a domestic recession which has seriously curtailed the spending power of Irish consumers.

An important point to make at the outset is that, contrary to much comment, NAMA is not a substantial player in the hotel sector. We have acquired loans which are secured by 83 hotels in Ireland - 30 in Dublin, 24 in Leinster (ex Dublin), 17 in Munster, 9 in Connaught and 3 hotels in Ulster. Three of these 83 hotels are closed and more are likely to close if they cannot demonstrate their viability. Hotels with debt due to NAMA account for less than 10% of the total number of hotels in Ireland and it is pretty well known that there is at least two non Irish lending institutions with a significantly greater exposure to the sector (about 300 Hotels combined) compared to the 83 in NAMA.

NAMA owns the Hotels loans but has no ambition to become directly involved in the management of the hotel businesses concerned longer than necessary or indeed to hold these assets longer than necessary.

We are acutely aware of the excess capacity of 15-20,000 rooms nationally. What is of interest to us is whether or not they are fundamentally viable on a medium-term basis; in other words, whether they are capable of generating sufficient sustainable cashflow to service the debt associated with them. With that in mind, we will review in detail the business plans of the debtors and assess rigorously their price and occupancy projections for the hotels. As there has been much misinformed talk of

NAMA keeping so-called zombie hotels on life support, let me be clear about this point: if debtors cannot demonstrate that their hotel businesses are viable, NAMA has no intention of pouring taxpayer's money into black holes. In fact much of the so called predatory pricing is in our view driven by non NAMA Hotels.

We are currently preparing sectoral strategies for various sectors, including the hotel sector and this will inform our analysis of the business plans that are submitted to us and refining our approach.

Ultimately, however, it will come down to a case-by-case analysis which will involve identifying appropriate options in each case. There are a number of strategies available to us in terms of enhancing profitability and thereby enhancing the capacity of the debtor to meet his debt service obligations. In some cases, it will be appropriate to work with debtors with a view to installing new management or to seeking affiliations to major hotel brands in order to benefit from a pooling of costs.

The option of debt restructuring will be considered in some cases. In other cases, more imaginative options will need to be explored. These include the identification of alternative uses for hotels which are not fundamentally viable, for instance, their potential use as nursing homes or as student accommodation. In circumstances where we must take greater control, we will look at options such as paired sales – placing hotels into complementary groups and arranging for their sale to investors who may not necessarily be interested in the purchase of individual hotel assets.

However, I should emphasise that our initial focus will be on working with debtors to identify the relative impact on their businesses of cyclical and permanent factors. Cyclical factors, such as the current recession and the recent fall in overseas visitor numbers, will be viewed in a different light to more permanent constraints such as the fact that some hotels are in the wrong locations, should never have been built and have no realistic prospect of ever generating sufficient profitability to service their debts.

## **Outlook for property market**

More generally, it is stating the obvious that the outlook for commercial property is closely tied up with the outlook for economic growth in general over the coming years. I note that the macro economic projections recently published by the Central Bank as part of its current PCAR2 stress-testing exercise on banks assets include a baseline scenario which sees a slight fall in commercial property prices in 2011 (minus 2.5%) followed by slight increases of 1.5% in each of 2012 and 2013.

On the residential sector the Central Bank is forecasting falls of 60% from peak (end 2006) to end 2012 under its adverse scenario or 55% under its baseline scenario - based we understand on the PTSB\ESRI index. At NAMA we are not surprised by this and it is not as alarming as one would first think. We do not believe that the PTSB\ESRI index currently showing close to 40% fall from peak is realistic and reflective of where the market is. NAMA's base valuation date was November 2009 and at this date we were already taking account of on average 50% falls in residential property values from the peak.

So while the residential market may have some little more to fall and no one can be certain that an average fall of 60% from peak may not occur in residential house prices, we would believe that the bulk of this has happened already.

As regards residential property in Dublin, the outlook is somewhat mixed. In certain parts of Dublin, the supply/demand outlook is likely to favour potential sellers over a two/three year horizon. However, there are also the well-documented cases of developments which should never have seen the light of day. The basic economics never made sense: the site acquisition and development costs can never be recovered and the only option is to sell the properties at whatever price purchasers are now willing to pay.

There have been a number of sales recently which demonstrate that if prices are adjusted sufficiently, demand will surface; in other words, there is always a market but it appears that some sellers may still harbour unreasonable expectations of the prices that can be realised for the foreseeable future. There seems to be a residual sense that if potential sellers wait around for a few years, the market will improve;



paradoxically, the only way that the market can be lifted out of its current stagnation is by generating transactions at whatever prices buyers are currently willing to pay.

All of the sectors I've mentioned - retail, residential and hospitality, are highly sensitive to consumer sentiment, economic stability and are similarly constrained at present by over-capacity and lack of bank finance for businesses and consumers. All are impacted by the fundamentals of our economy and some of these fundamentals are dependant on developments in the ongoing discussions at Government and internationally.

Certain sectors of the economy – technology, pharmaceuticals, exports – are performing well and will sustain demand for strong property assets in Dublin and elsewhere in Ireland. On that score, it is hugely encouraging that a world-renowned corporation such as Google has recently decided to invest in the sector through its purchase of the Montevetro Building, a transaction with which NAMA was heavily involved.

Whatever about our current difficulties, this represents a major vote of confidence in the long-term prospects of Ireland and it was reported positively internationally and noted positively internationally.

I am very confident that NAMA will facilitate many similar transactions over the coming months and years.

## **Conclusion**

NAMA has come a long way in a relatively short time. It has been the subject of numerous, often contradictory, criticisms: it has paid too much for its assets, thereby burdening the taxpayer for decades to come; it has paid too little for its assets, thereby depleting scarce bank capital. Some of the criticisms come from representatives of banks and developers and frankly, if we are doing our job properly on behalf of the taxpayer, we do not expect to be popular in either of those quarters.

What NAMA has done is to pay for acquired assets exactly in line with the valuation approach set out in law and approved by the European Commission.

It is misguided, in my view, to suggest, as has been done by representatives of the banking sector, that it was ever open to NAMA to camouflage the poor quality of bank lending by overpaying for their loans and somehow hoping that, in the goodness of time, all would be well. This was never an option: the European Commission reviewed the valuation methodology which was under discussion in 2009 and in the early part of 2010 in great detail and, in effect, through adjusting the methodology, carefully calibrated the amount of State Aid which could be provided to participating institutions. We have provided €30 billion liquidity to the financial institutions, and without that they would be even in a worse state than they are now.

NAMA is now focused on working with its debtors to recover, at the very least, what it has incurred on behalf of the taxpayer and where we can the full value of the loans transferred. We are commercially focused. We have been established for a specific purpose and our staff are people with a broad range of expertise and experience relevant to that purpose: we have brought together a team with national and international expertise in lending, property, asset management, accountancy, law, banking, credit and insolvency.

**Ends.**