National Asset Management Agency

NAMA

A working solution

Presentation by Frank Daly, Chairman NAMA
to the Fianna Fail Parliamentary Party
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Agenda

- Background to NAMA – how did we get here? Why NAMA?
- Who are we – Governance, Organisation, Accountability, EU
- Where are we – Asset transfers, Borrower engagement, Business Plan process
- Some basic strategic decisions
- Why we will succeed
- Common misconceptions about NAMA

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Background - NAMA

How did we get here?

Background - NAMA

Massive growth in property-related lending 2004-2007.

Insufficient attention within banks or within overall banking sector to basic risk management principles such as stress-testing.

Insufficient attention to key issue of supply /demand.

No rigorous analysis of whether scale of the rise in property prices could be justified by economic fundamentals.

Background - NAMA

- Enormous scale of lending to individuals who had little or no supporting corporate infrastructure or access to capital markets.
- Poor quality of credit appraisal.
- Over reliance on wholesale money markets.
- Failures of governance on the part of lending institutions' Boards.
- Regulatory failures.

NAMA – why?

1

- Irish Government became deeply involved in the banking system when it provided a wide-ranging guarantee for banks liabilities (€440 billion) on 30th September 2008.

2

- Examination of loan books of all institutions which partook in the guarantee scheme in October/November 2008.

3

- Government decided that certain institutions required to be recapitalised to deal with potential loan losses – late December 2008.

4

- Government nationalised Anglo Irish Bank in January 2009

NAMA - why?

5

- After nationalisation of Anglo Irish Bank, the Government re-assessed the amount of recapitalisation required and decided in February 2009 to invest €3.5 billion preference shares in AIB and BOI – this was completed on 31st March (BOI) and on 13th May (AIB).

6

- The Government also decided in February 2009 to assess whether some asset relief mechanism should be introduced – Minister for Finance asked Dr. Peter Bacon to prepare a report on options.

7

- The Government decided that an asset management option as recommended by Dr. Bacon was the best option and the proposed establishment of NAMA was announced on 7th April as part of the Supplementary Budget 2009.

The NAMA Timetable

Bill was published in the form of a consultation paper – Thursday, 30th July 2009

Bill was introduced in the Dáil – Wednesday 16th September 2009

Committee and Final Stages – October/November 2009

The NAMA Timetable

NAMA established and Board appointed 22 December 2009.

EU approval of NAMA end February 2010.

Transfer of the initial largest borrower exposures across all institutions commenced end March 2010.

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Who are we?

Governance

NAMA Board – seven members appointed by Minister plus CEO of NAMA and Chief Executive of NTMA.

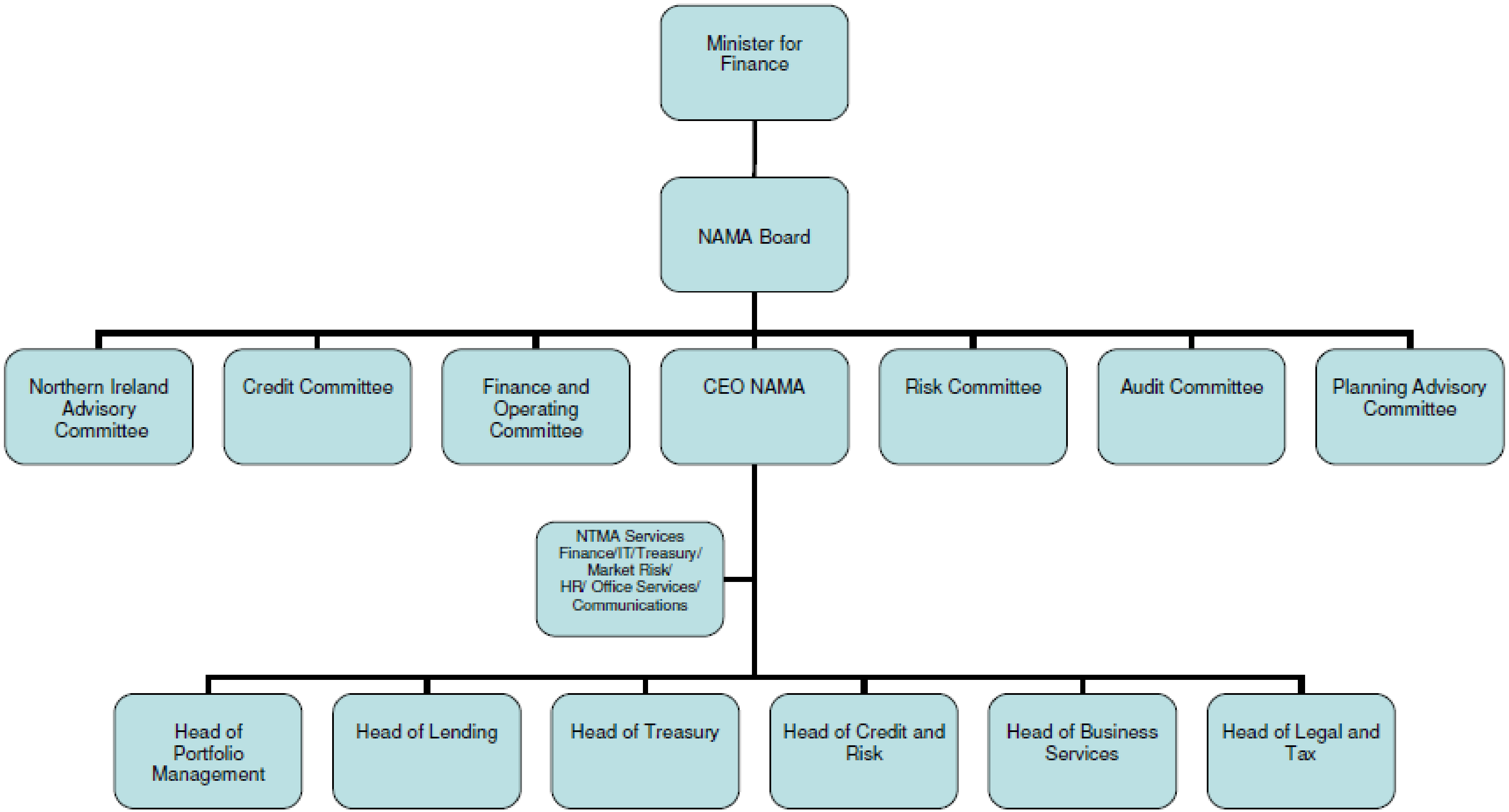
CEO of NAMA is accountable officer for PAC.

4 Board Committees

2 Advisory Committees

NTMA provides staff and support services to NAMA.

NAMA Organisation Structure



Now that legislation has been passed, NAMA has begun to recruit for senior roles. Some senior roles will be filled by in-house NTMA staff.

Those appointed to senior positions will recruit staff for their divisions and NAMA has 72 staff by end August 2010.

NAMA will recruit only where necessary and is seeking the best people who are available and who are of good character, not conflicted or compromised.

NAMA will outsource expertise that is not required on a day-to-day basis. This will bring efficiencies.

All incoming staff to NTMA being allocated to NAMA will be subject to fixed purpose contracts.

All staff subject to sections 42 and 43 of NAMA Act – quite onerous.

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Accountability

NAMA - Accountability

- Annual Statement to Minister and Oireachtas
- Annual Report & Accounts
- Quarterly Reports to Minister and Oireachtas
- Oireachtas committees – Chairman and CEO will give evidence whenever requested to do so.
- Comptroller & Auditor General
- EU Commission (through Financial Regulator and otherwise) to audit and ratify loan valuations

EU Oversight

- **EU State Aid**

EU Commission have approved NAMA – end February 2010.

- Eligibility criteria re institutions and assets
- Valuation Methodology

EU must approve:

- Each Tranche of loan transfers as it is completed – tranche 1 of €15.3bn approved in August 2010
- Bank Viability/Restructuring post-NAMA.

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What we are doing

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- Loans are bought from banks at close to the market value of underlying property collateral
- Tranche 1 & 2 – Nominal value of loans: €27.2 bn.
  - Consideration paid € 13bn
- Average discount on Tranche 1 & 2 of €27 bn was 52.5% - Banks take the losses upfront
- Over 3500 individual loans transferred Tranches 1 and 2
- Tranche 1 & 2 – Current Market value of € 12.9
- Banks now have €13 bn of liquidity they previously did not have
- Overall we expect to transfer 15,000 loans from about 1450 debtors with a total nominal value of c€80 bn
- NAMA is an asset management agency – we take the management of the bought loans away from the banks and manage them directly.
- NAMA Business Plan – Central Scenario €1 bn profit

Overview of Tranches 1 to 3

	AIB	BOI	EBS	INBS	Anglo	TOTAL
Total expected loan transfer – All Tranches (€bn)	23.0	12.0	1.0	9.0	36.0	81.0
Number of loans in Tranche 1	222	348	39	41	1,106	**1,756**
Tranche 1 transfer (€bn)	3.3	1.9	0.1	0.7	9.3	**15.3**
Tranche 2 transfer (€bn)	**2.7**	**1.8**	**0.036**	**0.59**	**6.8**	**11.9**
Number of loans in Tranche 2	**300**	**192**	**15**	**38**	**1,217**	**1,762**
Tranche 3 (expected transfer) (€bn)	**3.3**	**2.4**	**0.015**	**2.8**	**3.6**	**12.1**
Total - tranches 1 to 3 (€bn)	**9.3**	**6.1**	**0.15**	**4.1**	**19.7**	**39.3**
First three tranches as % of total	40%	51%	15%	45%	55%	**48%**

Number of borrowers Tranches 1 to 3	**100**

NAMA Business Model

Bank Perspective – Sale of loans to NAMA for Government Bonds

- Reduces risk weighted assets (RWA) which will have a high weighting for capital ratio purposes
- Removes Loans form Bank's Balance Sheet that Generally <u>cannot</u> be used for collateral purposes to access liquidity with Central Banks or market counterparties
- Receives Government Securities which <u>can</u> be used as collateral with Central Banks and market counterparties for liquidity (zero weighting RWA)

NAMA Perspective

- NAMA <u>controls</u> the relationship with the borrower and makes all the decisions.
- NAMA receives income on the acquired loan portfolios (using floating interest rate plus a profit margin)
- NAMA pays an interest coupon on Government bonds (floating interest rate)

Borrower Engagement

Largest 100 borrowers – €50 billion of €81 billion portfolio

- Intensively managed by NAMA – key credit decisions and relationship management carried out by NAMA.
- Loan administration performed by participating institutions

Other borrowers, c.1,400 - €31 billion of €81 billion portfolio

- Credit decisions made by NAMA. Cascading system of credit limits and delegated authority: NAMA Board – Credit Committee - NAMA management – NAMA units in banks.

  NAMA to have a presence in each of the bank units – day-to-day credit decisions and operations – liaison and oversight role.
- Relationship management and loan administration carried out by participating institutions within NAMA parameters.

Business Plan Process

1

- As loans are transferred across to NAMA, each of the borrowers will be asked to prepare a realistic and concise Business Plan setting out:
  - The borrower's current situation
  - Levels of indebtedness to non-NAMA institutions
  - A full list of assets and liabilities
  - Short-, medium- and long-term objectives
  - A list, in order of priority, of assets to be disposed, assets which require additional investment, etc.

2

- NAMA will asses each of major borrower's Business Plan to evaluate whether it is sensible, logical and realistic.

3

- NAMA will meet with the major borrowers and will give a response to their proposed business plan.

4

- If no agreement can be reached, or the borrower does not wish to cooperate with NAMA, he will be asked to repay his debts in full. If this is not feasible, NAMA will take enforcement action against the borrower.

5

- Same process will be followed with remaining borrowers except it will be carried out through the original institutions in a framework agreed with NAMA.

NAMA – Asset transfer

Our target of completing the loan transfers by end-February 2011 is entirely dependent on the readiness of each financial institution in having the information prepared on each individual loan for the NAMA due diligence process.

Commentators have made the incorrect assumption that NAMA will not take enforcement proceedings against any defaulting borrower in 2010. NAMA will do so if necessary but each individual borrower must first be given a fair opportunity to present an updated business case within a reasonable timeframe to make a pitch for survival.

NAMA is a workout vehicle, not a liquidation vehicle, and can take the longer view on borrowers and assets if it makes commercial sense to do so.

Key Strategic Decisions of Board (1)

- **Pursue all debts and debtors to greatest extent possible**
- **Work with debtors if optimal commercial decision and they co-operate, make full disclosure, and are realistic about e.g lifestyle**
- **Undeveloped land and partially completed developments – reduce our exposure – where appropriate by public auction**
- **Unfinished estates – complex sensitive issue – case by case solution**
- **Asset disposal – orderly and phased – no speculative hoarding**
- **New money – scarce resource – advanced only where it makes commercial sense and enhances NAMA's financial position**

Key strategic decisions of Board (2)

- **Security – aim to secure all unencumbered assets – pursue assets transferred to third parties – secure all available cash flows**
- **Enforce personal guarantees to greatest extent feasible**
- **Planning – engage with Planning Authorities having regard to proper planning, sustainable development principles and NAMA's commercial remit**
- **Engage with Local Authorities, Govt. Departments, State Agencies regarding their property needs – give them "first refusal"**
- **Hotel sector – base decision on optimal commercial outcome**

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Can it succeed? **YES**

NAMA – Can it succeed?

NAMA, with 67% of its prospective assets based in the Republic of Ireland and an additional 6% in Northern Ireland, is heavily dependent on a sustained economic recovery on the whole island. This, in turn, will be dependent on the respective Governments' management of the economy and the restoration of competitiveness. As an open economy, Ireland should also benefit from growth among our large trading partners if economic fundamentals are restored.

27% of assets that will be based overseas, mainly the UK (21%), will recover more quickly and we would envisage that this part of the NAMA portfolio would be realised earlier.

NAMA does not require anything other than modest growth over its expected 7/10 year life to break even on its portfolio.

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Misconceptions

Common misconceptions about NAMA

Borrower bailout? No

- Borrowers will continue to owe 100% of liability. NAMA will assess each borrower's viability more rigorously and impartially than banks have done to date. Some borrowers are unlikely to survive this process.

Bank bailout? No

- Current value of property will be stringently assessed – banks valuers will have a duty of care to NAMA – assumptions will be scrutinised closely by NAMA's own valuer panel. Cross-checking for consistency.
- Subordinated debt - 5% - first loss
- Provision for tax surcharge on bank profits after NAMA wind-up if it has any accumulated losses.

Common misconceptions about NAMA

Scale of property market recovery

not impossible

- Some commentary has suggested that property market will need to recover to 2004-2007 levels for NAMA to break even. The scale of recovery required is, in fact, a more modest 10% over the lifetime of NAMA taking into account the 5% of subordinated debt (€2bn).

NAMA – a goldmine for advisers? No

- Costs on advisory services have been low to date.
- Very competitive and thorough public procurement process for valuation and legal due diligence services will drive costs down.
- 100% of the cost of the due diligence services will be recouped from the banks.
- Taxpayer acquiring c14,000 loans – we all need assurance that taxpayer is getting a fair deal and that assets are being rigorously valued and due diligenced.

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"Ireland is paying for its decision to set up a toxic-loan repository that forces banks to clean up their balance sheets vigorously, rather than put off dealing with problems (as Germany has done) or insure dodgy loans and just hope they improve (as Britain has). 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"

- *Source:* The Economist "Ireland's Banking Mess; Austerity is not enough to avoid the scrutiny by the markets". August 19th 2010 .

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NAMA Final Fact

The losses already exist in the loan books of financial institutions due to PRIOR poor lending practices and declines in asset values – what NAMA does is that it forces the upfront recognition of those losses by the banks. The banks would have to be recapitalised in any event.

NAMA does provide liquidity to the banking system.

NAMA is the solution – NOT the problem