

## **NATIONAL ASSET MANAGEMENT AGENCY**

### **Opening Statement to Joint Committee on Finance and the Public Service**

**Brendan McDonagh, Chief Executive**

**Tuesday, 13th April 2010**

Chairman, Deputies and Senators,

Thank you for the opportunity to address you on the setting up and operation of the National Asset Management Agency. When I was last here a year ago on the 26<sup>th</sup> May 2009, the National Asset Management Agency existed only on paper. The policy decision to establish NAMA was announced by the Minister for Finance in the first week of April 2009 and I was appointed as interim Managing Director on the 5<sup>th</sup> May 2009. Since that time a small team within the NTMA has worked closely with the Minister for Finance, the Department of Finance and the Attorney General's office to develop the legislation and to secure EU Commission approval. Today NAMA exists in reality, having passed all those hurdles and with the transfer of €16 billion of loans (the first and largest tranche of its planned loan transfers) well underway. I intend to give you a brief overview of the considerable progress made to date and an indication of how our work will proceed during the rest of the year.

NAMA is, first and foremost, an asset management agency, established with the aim of transferring key property-related exposures from the balance sheets of the participating financial institutions in return for Government-guaranteed securities. It will manage these loans with the aim of achieving the best possible return for the taxpayer over a 7 - 10 year timeframe. Replacing these property-related loans with Government Guaranteed Securities will remove uncertainty about the soundness of banks' balance sheets, provide the institutions with much needed liquidity and make it easier for the institutions to access capital (for some) and liquidity (for all) in the international capital markets. Financial Institutions cleansed of risky categories of property loans should be free to concentrate on their core business of lending to and supporting businesses and households.

The first tranche of loan transfers to NAMA will see c.1,200 individual loans with a nominal value of €16 billion acquired for a consideration which is expected to be of the order of €8.5 billion, representing an average discount of about 47%. To date,

NAMA has completed the transfer of loans from 4 of the 5 participating institutions and loans from the remaining institution – Anglo Irish Bank – are due to transfer in the coming weeks. Tranche 1 is the biggest single batch of loan transfers that NAMA expects to undertake, representing some 20% of the total. A lot of hard work was necessary to allow the first loan transfers to begin within a month of securing EU approval and I would like to express my appreciation to all the team at NAMA for their efforts. We have also established the Special Purpose Vehicle and have secured the necessary private sector investment of €51m so as to ensure that the NAMA debt and transactions are off Balance Sheet for General Government Debt (GGD) and General Government balance (GGB) purposes.

Our sole focus at NAMA is to bring proper and disciplined management to these acquired loans and borrowers with the aim of achieving the best possible return and to protect the interests of the taxpayer. We have already held face-to-face meetings with many of the borrowers whose loans have been acquired as part of Tranche 1. Each borrower will have to submit a comprehensive business plan in accordance with NAMA's template within 30 days of being acquired. The individual borrower's viability will then be rigorously assessed over the coming 2-3 months as part of the business plan review process. We are willing to engage with an open mind to our acquired clients but I must reiterate that we require full disclosure of all material information and we will not waste time with borrowers who do not wish to cooperate or who have not yet accommodated themselves to the current realities of the property market.

I want to dispel any notion that NAMA is a bailout for developers. It is no such thing. I along with the Board of NAMA were appointed in late December 2009. The Board are a group of highly skilled and professionally-qualified, tough-minded people. They have gone about their role assiduously and foremost on their minds is to protect the taxpayer. The Board is very clear, as I am, about what NAMA needs to do and what we expect from our acquired debtors. Just as any borrower from a bank must expect to have to repay his or her debts, the same will apply to anyone whose debts are transferred to NAMA. NAMA has a clear commercial mandate to recover debt and therefore its purpose is certainly not to let developers or any other borrowers walk away from their responsibilities. Borrowers who continue to meet their contractual

obligations have nothing to fear from us but those who do not can expect NAMA to take whatever actions it considers necessary to protect the interests of the taxpayer.

Some commentators have expressed surprise that the discounts that have emerged for each of the institutions have been so high. Initial indications of an aggregate discount of 30% were based on information provided last year by the five participating financial institutions. However, our own detailed due diligence on a loan by loan examination has revealed a troubling picture of poor loan documentation, of assets not properly legally secured and of inadequate stress-testing of borrowers and loans - all born of a mindless scramble to funnel lending into one sector at considerable pace and of a reckless abandonment of basic principles of credit risk and prudent lending. As a consequence of a number of factors - the fall in property values, a detailed scrutiny of loan and security documentation and a sober assessment of the prospects for the underlying property which secures loans - the expected discount of 47% for the first tranche is higher than could originally have been expected. I should point out to those who predicted that NAMA would overpay for assets that the consideration of €8.5 billion is less than the estimated current market value of the underlying property (€9.4 billion) and is also less than its estimated long-term economic value of the property of €10.5 billion.

Much has been made of our ability to make a certain amount of funding available to allow projects to be completed. Let me state quite clearly that NAMA will take a strictly commercial view of unfinished projects and we will not sanction their completion for completion's sake. NAMA will only make funding available if it makes commercial sense to do so. We have to be realistic about the portfolio of assets NAMA is acquiring. As an involuntary purchaser it has to take what it is given. However, when one examines the types of assets or indeed travels through the country we can all see land and half-built developments which should never have been contemplated as it hard for anyone with an objective view to see how they made sense even at the top of an overheated property market, never mind today when the market has collapsed. Inevitably, NAMA may well be faced with the very difficult decision of perhaps knocking down certain developments and this will incur costs but unfortunately there is no avoiding this. However, the taxpayer can be assured that the price NAMA will pay the financial institutions for these loans will reflect this reality.

There will be other developments where it will make commercial sense to complete the projects already underway but NAMA is not going to be a soft option and borrower applications for additional funding will be assessed rigorously on a case-by-case basis. We have already initiated with a number of borrowers a review of costs to completion of individual projects – we are taking nothing for granted and no borrower should expect otherwise.

With Tranche 1 nearing completion, work is already underway on the second tranche of loan transfers of €13 billion which we expect to take place in the second quarter. By the time the third tranche of €8.5 billion is transferred almost 50% of the total loans due for acquisition will already have been taken over by NAMA. I must state that NAMA is entirely dependent on the participating institutions providing us with the requisite due diligence on a timely and, frankly, in a correct manner. Tranche 1 due diligence was of variable quality and no doubt lessons will be learnt by all sides of how to improve the process and with that in mind I fully expect that the pace of loan transfers will accelerate during the second half of the year as smaller and less complex loans can be due diligenced, valued and transferred more easily. Our objective is to transfer the remaining loans from the five institutions by the end of the year and certainly no later than end February 2011, the deadline set by the EU Commission. In fact, depending on the institutions themselves and their own readiness, we estimate that we could have 3 of the 5 institutions completed by the third quarter of 2010.

NAMA is not the problem; it is merely cleaning up a problem created by others. I can assure the Committee that my colleagues and I in NAMA and the NTMA will remain resolutely focussed on the interests of the taxpayer as our work continues in the months and years ahead. To do otherwise would be to repeat the costly mistakes committed by those involved with the banking system in recent years.

NTMA and NAMA are at one with each other, we are all part of the same family, we have a common approach and a common purpose. We were glad to be outsiders when we saw the problems created by others. I can assure the Committee that now that NAMA and the NTMA are part of the policy solution to restore credibility of Ireland's sovereign name as a borrower and also part of the rejuvenation of the

banking system, we will do everything in our power to try and ensure that the Ireland has a better future while at all times protecting the interests of the taxpayer.

I thank the Committee for the opportunity to have made these comments. We are happy to take any questions you may have.

**NAMA**

**13<sup>th</sup> April 2010**