National Asset Management Agency

The National Asset Management Agency

A Brief Guide

30th March 2010

What is NAMA?

The National Asset Management Agency is a key part of the solution to the current banking difficulties in Ireland.

The Government examined all of the potential approaches available to it to deal with the riskiest loan portfolios on the balance sheets of Irish banks. These loans were preventing banks from lending into the economy which is required to support economic recovery. Following an examination of the options available, it was decided that an asset management agency approach was the best means of ensuring the stability of the financial system and the protection of depositors and of ensuring that banks were able to lend to the real economy.

NAMA is an asset management company that will acquire good and bad loans from participating institutions. It will manage these assets (hold, dispose, develop or enhance them) with the aim of achieving the best possible return for the taxpayer on the acquired loans and on any underlying assets over a 7 - 10 year timeframe.

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.

NAMA is sometimes described as a “toxic” or “bad” bank. In fact, it is not a bank since it will not be taking deposits from the public and will not have a banking licence. Moreover, there will be a mix of bad or “non-performing” loans and good or “performing” loans in NAMA’s portfolio.

What is NAMA doing?

NAMA is buying loans, at a discount, from the participating banks. These loans come from the riskiest part of the banks’ portfolios - loans secured on development land and property under development. In addition, the largest property-backed loans of all the banks in the scheme are being acquired. Taking these riskier loan classes off the balance sheets of the banks concerned will make the banks safer and more secure for depositors and investors and free them to lend again to the productive economy.

By doing this NAMA is putting itself in the place of the bank that originated the loan and will have all the same rights to pursue debts, where this is necessary. Borrowers who continue to meet their contractual obligations will, of course, have their rights fully protected.

What price will NAMA pay for the loans?

The price NAMA will pay for the loans will not be based on the peak prices recorded during the property boom. Instead, the price will be based on the current market value of the property adjusted to NAMA’s view of its long-term economic value in accordance with the valuation methodology approved by the EU Commission.

In most cases, the long-term economic value will be significantly less than the outstanding loan extended to the borrower who will continue to owe the full amount. In some cases NAMA will pay just a nominal amount for loans where, for example, the underlying security is deficient or non existent.

What is the NAMA “discount” or “haircut”?

The NAMA “discount” or “haircut” refers to the discount applied by NAMA when buying loans from the banks. Every loan will be valued separately and professionally on behalf of NAMA. The actual amount of the discount applied will depend on the quality of the underlying property (which is the security for the loan), on any other collateral and on whether the loan is performing or non-performing.

In simple terms the discount is the difference between the nominal value of a loan on the bank’s books and the price NAMA will pay for it.

How will NAMA pay for the loans it buys and how much will it cost the taxpayer?

NAMA is not paying cash but will exchange Government Guaranteed Securities (95% of the total consideration) for the loans it buys. These Securities will pay a floating rate of interest but it is expected that the cash flow from the loan assets acquired by NAMA will be sufficient to cover the interest payments on the NAMA securities.

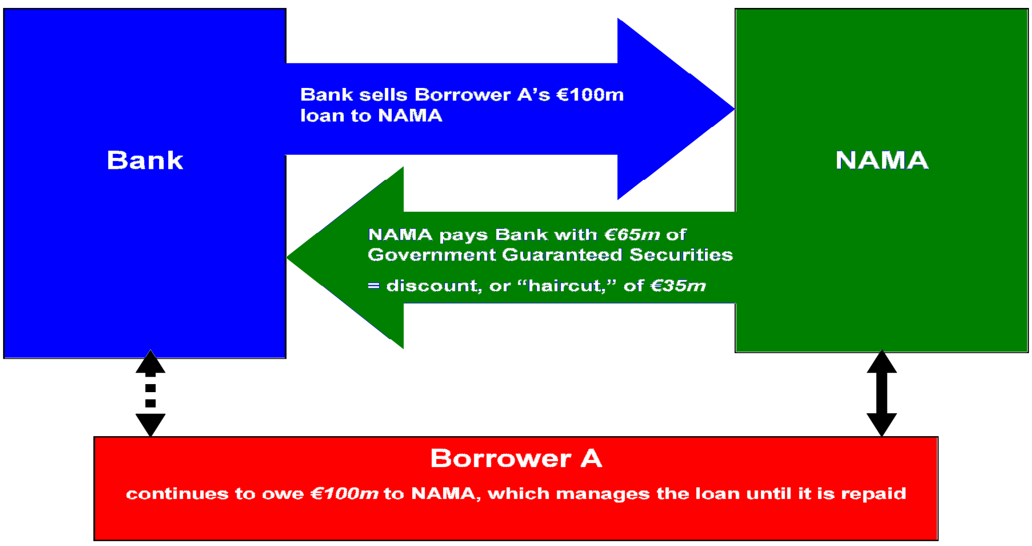
NAMA will pay the remaining 5% of the total consideration in the form of NAMA subordinated securities.

The potential book value of loans that will be transferred to NAMA is estimated to be in the region of €80 billion. NAMA will not pay anything approaching this amount for the loans. To ensure best value for money for the taxpayer NAMA will pay a discounted price for these loans – considerably less than their book value. The borrowers, however, will continue to owe NAMA the full amount of their outstanding loans regardless of the price paid by NAMA.

What will NAMA want to achieve with these loans?

NAMA will manage the loans it takes on so as to obtain the best achievable return from them. It will collect interest due

How NAMA works



The discount figure used is for illustrative purposes only and pursue debts so as to ensure its own income stream and to recoup the taxpayer investment over time.

Income from loans that are being repaid will accrue through NAMA to the taxpayer. Where a borrower defaults and NAMA takes over the underlying asset, the proceeds from the sale of those assets will also accrue through NAMA to the taxpayer.

If NAMA succeeds in making a surplus when its work is finished, the taxpayer keeps all of it. If, however, NAMA makes a loss, a levy will be applied to the banks to make up the shortfall.

It has been suggested that the 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.

What happens after loans transfer to NAMA?

NAMA is acquiring the loans of the largest 70-100 borrowers first. Borrowers will have to submit a detailed 3-year business plan to NAMA within 30 days of their loans being acquired. NAMA will then determine whether these plans are viable and will either approve them, reject them or refer them back to the respective borrowers for amendment.

Where plans are approved, NAMA will monitor the borrowers' subsequent performance to ensure they adhere to the targets contained in the approved business plans.

Where business plans are rejected and borrowers are considered to be no longer viable, NAMA will take whatever actions it considers necessary to protect the interests of the taxpayer, be it through the appointment of Statutory Receivers, receivers, or through the use of vesting orders or other enforcement mechanisms such as liquidation.

How will NAMA evaluate these business plans?

NAMA will insist that borrowers provide business plans that are commercial, realistic and backed up by hard data. There are a number of important considerations for NAMA in assessing borrowers' business plans. Some of the projects originally envisaged under these loans will not be allowed to proceed if they no longer make commercial sense. Other projects may remain commercially viable but may need investment in order for them to reach completion and generate cash flow through rental activity or through disposals. NAMA may, provided it makes commercial sense to do so, make funding available to allow these projects to be finished. It also has the flexibility to enter into partnerships or joint ventures as a means of ensuring project completion. Finally, borrowers may be required to sell non-income producing assets (primarily land and development assets) at appropriate prices in the early years of NAMA to generate cash to support their own operations – this will be on a case-by-case basis.

How exactly will NAMA improve the situation?

It is important to take these property loans off the balance sheets of the banks now not because they are inherently worthless but because they are part of a class of assets whose worth is harder to assess in the current economic environment. Irish banks rely heavily on financial institutions abroad for capital market funding but the financial and capital markets are uncertain about the overall impact of such property loans on the sustainability and viability of the banks and about the extent of the losses these loans will generate.

Replacing these property-related loans with Government Guaranteed Securities will remove uncertainty about the soundness of banks' balance sheets and make it easier for them to access funds in the international financial markets.

Banks cleansed of risky categories of loans will be free to concentrate on their core business of lending to and supporting businesses and households.

Is NAMA a bailout for developers?

No. Just as any borrower from a bank must expect to have to repay his or her debts in full, 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. In fact, NAMA will assess each borrower's viability more rigorously and impartially than banks have done to date. Moreover, this assessment will be based on the borrower's aggregate exposure to all institutions. Some borrowers are unlikely to survive this process and their businesses may ultimately be liquidated.

Is NAMA paying large fees to advisers?

To safeguard taxpayers interests NAMA will not acquire any loan without the most rigorous examination of its real value and the security attaching to it. This means that NAMA has to engage professional assistance.

The cost of advisory services has been low to date. The very competitive and thorough public procurement process used by NAMA for valuation and legal due diligence services is in fact driving the cost of these services down. Furthermore, NAMA will recoup the cost of these services from the banks as the valuation regulations provide for recovery of initial due diligence and any subsequent enforcement costs (i.e. legal and other costs incurred in the process of taking over the underlying asset when a borrower defaults). These costs will be recouped through an upfront deduction of 5.25% from the price NAMA will pay the banks for the assets.

Who runs NAMA?

NAMA has been established on a statutory basis under the aegis of the National Treasury Management Agency (NTMA) which has a proven track record in meeting the State's financial requirements in a number of different areas.

NAMA has its own Board comprising seven members appointed by the Minister for Finance. The Chief Executive of NAMA and the Chief Executive of NTMA are also on the Board.

The Chief Executive and the Chairman of NAMA are accountable to the Committee of Public Accounts and must report to Dáil Éireann on NAMA's appropriation accounts and on the reports of the Comptroller and Auditor General who will audit NAMA's accounts. To ensure that both Houses of the Oireachtas are fully aware of NAMA's financial and business activities, the Minister for Finance will lay copies of NAMA's annual report and such other reports as appropriate before each House of the Oireachtas.

The NAMA numbers (as of March 2010)

- The portfolio size is approximately €80 billion. NAMA will acquire some 14,000-15,000 loans.

- The largest 100 borrowers account for approximately 50% of the portfolio. Some 1,400 other borrowers make up the rest.

- About 67% of NAMA's prospective assets are based in the Republic of Ireland and approximately 6% in Northern Ireland. The rest are overseas, with the bulk of these (approximately 21%) in the UK.

- About 43% of NAMA's prospective assets are land, about 26% are development and about 31% are commercial.

More information on the National Asset Management Agency can be found at www.nama.ie