NAMA – Modus Operandi

26th November 2009
Background

How did we get here?
Background

- 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

- 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.
“Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.”

NAMA – why?
NAMA – Why?

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

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

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

NAMA – Why?

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

- 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.

- 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.
Who are we?
NAMA – Who are we?

- A State agency with a commercial remit to implement Government policy and legislation passed into law by Oireachtas.

- Set up to acquire performing and non-performing loans from participating institutions. Key criterion is that the liabilities of impaired or potentially impaired borrowers and assets in the property sector are removed from bank balance sheets.

- To manage (hold, dispose, develop or enhance) assets.

- To achieve the best possible return for the State on the acquired loans and on any underlying assets that may be realised over a 7 - 10 year timeframe.

- **Objective:**

  A minimum is to breakeven, at least, over a projected lifespan of ten years. Draft Business Plan projects a NPV profit of €4.8 billion.
NAMA

Timetable
The NAMA Timetable

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

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

- Committee and Final Stages – October/November 2009

- NAMA to be established presently.

- Transfer of the initial largest borrower exposures across all institutions by end-January 2010.

- Phased transfer of remaining borrowers with target of end-July 2010 for completion.
<table>
<thead>
<tr>
<th>Institution</th>
<th>Land &amp; Development Loans</th>
<th>Associated Loans</th>
<th>Total € Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIB</td>
<td>17.0</td>
<td>7.1</td>
<td>24.1</td>
</tr>
<tr>
<td>Anglo</td>
<td>16.3</td>
<td>12.1</td>
<td>28.4</td>
</tr>
<tr>
<td>BOI</td>
<td>10.0</td>
<td>5.5</td>
<td>15.5</td>
</tr>
<tr>
<td>EBS</td>
<td>0.5</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>INBS</td>
<td>5.6</td>
<td>2.7</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Total € bn</strong></td>
<td><strong>49.4</strong></td>
<td><strong>27.7</strong></td>
<td><strong>77.1</strong></td>
</tr>
</tbody>
</table>
## Portfolio breakdown - Asset Type & Location

<table>
<thead>
<tr>
<th>€ Billions</th>
<th>Ireland</th>
<th>UK &amp; NI</th>
<th>Other (USA/ Europe)</th>
<th>Total € billions &amp; Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land &amp; Development</td>
<td>33.1</td>
<td>10.3</td>
<td>3.3</td>
<td>49.4 (64%)</td>
</tr>
<tr>
<td>Associated Loans</td>
<td>18.4</td>
<td>5.6</td>
<td>1.5</td>
<td>27.7 (36%)</td>
</tr>
<tr>
<td>Total € billions</td>
<td>51.5</td>
<td>15.9</td>
<td>4.8</td>
<td>77.1 (100%)</td>
</tr>
<tr>
<td>Percent</td>
<td>67%</td>
<td>21%</td>
<td>6%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Portfolio breakdown - Asset Type

Split of Eligible Loan Book for transfer by type

- Associated loans, €28bn, 36%
- Land, €28bn, 37%
- Development, €21bn, 27%
Long-term Economic Value
Long-term Economic Value (LEV)

- The value that NAMA can reasonably expect to realise on its acquired assets over a 7 - 10 year horizon.

- Note: Local supply/demand considerations are incorporated into the current market value of property (CMVP)

- Adjustment factors will be applied to CMVP to obtain LEV of property.

- Adjustment factors will be determined by extent to which current prices/yields have deviated from long-term trends. Prices/yields for the 2005-2008 period will be ignored for this purpose.

- Econometric analysis on correlations between property prices, GDP, demographics and other variables.
LEV – Draft Regulations

- Maximum uplift per property: 25%
- Maximum aggregate uplift per institution on total property collateral: 20%
- Potential 0% uplift for land which, in NAMA’s view, has no prospect of development and for incomplete developments which have limited sale prospects.
- NAMA may refuse to acquire certain assets.
NAMA

Powers, Legislation & Governance
Proposed NAMA Powers

- Lend
- Borrow or raise funds, including the issuance of bonds.
  - NAMA may borrow up to €5 bn
- Give guarantees or sureties
- Form or take an interest in companies
- Enter into partnerships or joint ventures
- Establish trusts
- Borrow or lend securities, including equity and debt instruments
- Purchase other property, assets or rights
- Invest
- Sell or dispose of property or investments
- Undertake land and property development to realise the full value of acquired assets
Other Issues Covered in the Legislation

- Statutory Receivers
- Vesting Orders
- Compulsory Acquisition
- Tax treatment of NAMA – tax equivalence
- Restructuring of participating institutions
- Institutions will have to cover any NAMA losses on windup via tax surcharge
- NAMA Review – 3 years
- Codes of Practice
- Offence to lobby NAMA or any service provider.
Governance

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

- Minister nominates a member of the Board as Chairperson

- Minister, after consulting Chairperson of NAMA and Chief Executive of NTMA, appoints CEO of NAMA.

- CEO of NAMA is accountable officer for PAC.

- 4 Board Committees – Credit\Risk\Audit\Finance

- NTMA provides staff and support services to NAMA.
NAMA Organisation – 5 Organisational Functions

**Portfolio/Asset Management**
- Portfolio managers - management of large borrower exposures
- Asset managers – management of property and other assets following loan default
- *Outsourced – Asset Workout, Valuation, Planning, Project Management*

**Banking & Lending**
- Decisions regarding advances, funding, pricing, hedging etc.

**Business Services**
- Portfolio Valuation
- Finance/Budget/Statutory Reporting/MIS
- Strategic Planning
- *Outsourced: loan servicing*

**Credit & Risk**
- Credit/Counterparty/Liquidity/FX/Operational

**Legal & Tax**
- Loan and asset transfers
- Litigation/Tax Issues
NAMA

Application & Participation Process for Financial Institutions
NAMA Application & Participation Process

1. Credit institutions apply to participate within 60 days of the establishment of NAMA. Listed institutions will have to obtain shareholder approval – will have to hold EGMs.

2. Minister consults with Financial Regulator and Governor of the Central Bank – institutions are designated as participating if they are deemed to be of systemic importance.

3. Institutions to provide NAMA with list of eligible assets. Institutions have to indicate which assets they wish to appeal. NAMA will refer to Expert Reviewer if no agreement reached with institution.

4. NAMA due diligence process on eligible assets – Legal & Financial.

5. NAMA prepares acquisition schedules – assets will be transferred in tranches from institutions to NAMA.

6. Issue of government-guaranteed NAMA bonds to institutions along with subordinated debt for 5% of consideration.
The EU & NAMA
EU Issues

- EU State Aid

EU Commission must approve:

- Eligibility criteria re institutions and assets
- Valuation Methodology in principle and actual valuations
- Bank Viability/Restructuring post-NAMA.
EU Issues

- Eurostat
  - Treatment of NAMA–issued bonds for GGDebt purposes (32%).
  - Treatment of NAMA foreclosures for GGDeficit purposes e.g. €5bn foreclosures in a year would add 3% to GGB
  - New Eurostat Guidance published on 15th July.
  - CSO made submission to Eurostat on 20th July – guidance sought on possible majority, privately-owned, NAMA-controlled SPV to get NAMA off-Balance Sheet.
  - Eurostat agreed in late October that NAMA would be off- Balance Sheet if it operated through Master SPV. NAMA to maintain veto on SPV.
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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
NAMA

What will it do?
NAMA – What will it do?

- **Largest 100 borrowers – 50% of the portfolio**
  - Intensively managed by NAMA – key credit decisions and relationship management carried out by NAMA.
  - Loan administration performed by participating institutions

- **Other borrowers (c.1,400/1,500) – 50% of the 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.
NAMA – What will it do?

- 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.

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

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

- If agreement can be reached, NAMA will work constructively with the borrower to try and achieve the optimal outcome.
NAMA – What will it do?

- 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.

- 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 will have 2 DISTINCT business lines:
  - Loan management division – to manage acquired loans.
  - Asset management division – to manage real assets acquired post-enforcement. This division of NAMA will either dispose of the asset, retain it, invest additional money in the asset itself or seek joint ventures, partnerships to co-invest and manage the asset with a view to disposal at a future date.

Each division will be run as a profit centre with the objective of achieving the best possible outcome for NAMA and ultimately taxpayers.
NAMA – Asset transfer

- Much of NAMA’s work for the first half of 2010 is set out in the draft NAMA Business Plan published on 13th October.

- Loan acquisition from the participating institutions is the initial priority. This is necessary to provide liquidity to banking system.

- An interim NAMA team of five has put in place the infrastructure to facilitate the loan acquisition process.

- First acquisition schedules may not occur until end-January 2010 because of delays arising from the application and approval process. NAMA has been working hard with potential participating institutions in the background to move as quickly as possible.
Our target of completing the loan transfers by end-July 2010 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.
NAMA – Recruitment

- 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 we expect that NAMA will have 75 staff by end-2010. Job specifications will shortly be posted on NAMA website for specific roles.

- 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.
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.
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 (€2.7 bn).

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.
- 70% of the cost of these services will be recouped from the banks.
- Taxpayer acquiring over 21,000 loans – we all need assurance that taxpayer is getting a fair deal and that assets are being rigorously valued and due diligenced.
Risks

- Protracted valuation process – risks arising from lack of preparedness on the part of participating institutions in terms of loan data or legal due diligence.

- Valuations outside expected range – risk that assets are more impaired than anticipated resulting in larger bank losses.

- Economic risk – for NAMA to succeed within its expected lifespan, economic growth in Ireland must resume at a moderate trend over much of the coming decade.

- Property market and other market risks (FX, Interest).

- Business strategy, staffing and reputational risks.
NAMA

Codes of Practice
Codes of Practice – Section 35

- Conduct of NAMA Officers
- Servicing Standards on acquired loans
- Risk management, including debtors
- Disposal of bank assets
- Dealing with non-participating institutions
Summary – Modus Operandi

- Objective
- Fair
- Reasonable
- Confidential
- Realistic
- Cost-conscious
- Respect

However, the task presented to NAMA is going to be very difficult and we will NOT waste time with acquired borrowers who do not cooperate and are not willing to be upfront and declare their interests to us.
Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.”