IRELAND IN CHANGED - AND CHANGING – TIMES

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Location, Location, Location

Toto, I've a feeling we're not in Kansas anymore

Dorothy, Wizard of Oz [1939]

- Budget Adjustment of €15bn over the next four years
- Significant level of front-loading expected
- Meanwhile, in London, NAMA takes centre stage

The scale of the task: a tall order?

- Repair and restore confidence in the Irish banking system
- A workout vehicle, not a *toxic* bank
- Acquire €81bn of commercial and development property loans
- In return, the lenders receive bonds, for use as security
- The bonds are calculated on a discounted *haircut* valuation

Doing the maths

The price paid…is based, to a large extent, on the current market value of the underlying property…the current market value may be uplifted to reflect NAMA's view of its long-term prospects...the valuation incorporates not only the value of the underlying property but other factors such as any additional collateral offered by the borrower and whether the loan is performing or non-performing. When the underlying security on a loan is deficient, NAMA applies a further discount.

[Frank Daly, Chairman of NAMA, 4 June 2010]

Underlying assumptions – and a key risk

- Only 20% of the loan book will default
- 40% of the assets are producing cashflow
- The assets have a market value of €47bn
- An estimated aggregate average loan to value rate of 77%
- Key risk - exchange rate fluctuations

Key statistics

– 15,000 loans are being acquired
– €50bn was lent to the largest 100 borrowers
– Of that €50bn, €16bn was lent to the *top ten* borrowers
– 43% of the assets are land
– 26% of the assets are development projects
– 31% of the assets are commercial properties
– One third of the loans are backed by UK properties
– 21% of the assets are in the UK

The participating institutions

- Allied Irish Banks plc
- Bank of Ireland
- EBS Building Society
- Irish Nationwide Building Society
- Anglo Irish Bank

Progress to date – the first tranche

- The *top 10* borrowers' loans have been transferred to NAMA
- 1,756 loans, with a nominal value of €16bn
- Acquired for €8.5bn – representing an average discount of 47%
- UK (exc N Irish) properties account for 38% of the geographical breakdown

Progress to date – the second tranche

- 17,62 loans, with a nominal value of €11.9bn
- Acquired for €5.28bn – representing an average discount of 55.6%
- UK (exc N Irish) properties account for 44% of the geographical breakdown

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Progress to date

- By the end of March 2011, NAMA had acquired €72.3bn in loans, for which a consideration of €30.5bn had been paid

- This represents an average discount of 58%

The current state of play

– Production and appraisal of borrower business plans

– *Viability is not a matter of survival on taxpayer life support until the good days come again…it is a matter of setting out a debt reduction target and convincing NAMA that the borrower has the will and the managerial capacity to deliver on the target. Where the borrower cannot convince NAMA that he can meet the target, the only option is foreclosure.* [Frank Daly, 4 June 2010]

What’s next?

NAMA may *take any action, including court action, that the participating institution could have taken to protect, perfect or enforce any security, right, interest, obligation or liability….*

[Section 99 (3) of the *National Asset Management Agency Act 2009*]

NAMA – who may be in the frame?

NAMA officials have found some banks carried out very lax valuations on property projects during the boom. …the work by some banks amounted to little more than 'drive-by valuations'

[*Irish Independent*, February 2010]

In some cases banks are discovering that they only have second or third call on the company's assets and that they fall behind a number of other lenders

[*Sunday Business Post*, January 2010]

NAMA – who may be in the frame?

Valuers

- Real estate valuation services for NAMA
- Historic valuations
- Disclaimers

NAMA – who may be in the frame?

Solicitors

- Investors and syndicate members
  - personal guarantees: joint and several liability
  - tax structures: claw backs
  - acting for more than one party to a transaction
  - failure to provide independent advice (e.g. to spouse)
- Inadequate security for loan arrangements
- Breach of undertakings

Contributory negligence

– What did banks not do well?

– What did banks know or not know?

"At one bank in the mid 2000s fully 35% of development property credits approved represented exceptions to policy. Two-thirds of these exceeded an 80% LTV ceiling –some exceeding 100% LTV; six of this bank's top 20 exposures had LTV in excess of 80% at that date."

"An inspection in May-June 2007 on commercial property lending at Bank A found that exceptions to the credit policy accounted for 28% of approved credits."

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Contributory negligence

“The inspectors noted that institutions have been unable to obtain a net worth statement from Mr X, as he is unwilling to disclose such details in writing.”

“Bank A does not review the overall indebtedness to all credit institutions of Mr X and the Z Connection, as Bank A focuses only on its own exposures and related security in these cases.”

“The inspectors were advised that the calculation by Bank E of Mr X’s net worth included >€100 million which represents working capital facilities provided by the Bank. It was not clear to inspectors how such debt increases Mr X’s net equity.”

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