

THE NATIONAL ASSET MANAGEMENT AGENCY – AN UPDATE TO RESEARCH PAPER OF 03 DECEMBER 2010

BACKGROUND

A research paper *The National Asset Management Agency (NAMA): some possible implications for Northern Ireland and lessons from international experience* was forwarded to the Committee for Finance and Personnel on 3 December 2010.

The purpose of this briefing note is to provide a short update on any developments since December that may be of interest to the Committee.

EUROPEAN STATE AID APPROVAL

Section 6 of the research paper raised the issue of state aid approval for the NAMA scheme. The European Commission granted its approval on 26 February 2010.

Competition Commissioner Joaquín Almunia said: "Ireland's financial sector has been one of the most affected by the global financial crisis in Europe and the burst of the Irish real estate bubble has only compounded the problems. This impaired asset measure, which is specifically targeted at real estate assets, is therefore key to cleaning up Irish banks' balance sheets. This is an important step towards the overall restructuring of the sector and its return to a normal and responsible functioning of the market."¹

The approval of the NAMA scheme itself will not come as a surprise, especially as the EU guidelines do allow this kind of measure. One of the general principles of the guidelines, however, is that **banks ought to bear the losses associated with impaired assets to the maximum extent.**

This is relevant to another of the concerns raised in the research paper – that the Irish State would overpay for the assets being transferred to NAMA.² But, Professor of Economics at UCD, Karl Whelan, has noted that asset prices in Ireland are still in decline which may mean that “the opportunity to keep banks from actual or near insolvency via overpayment seems to be slipping away.”³

Commenting on the Commission's decision Minister Lenihan stated:

¹ See <http://www.eumonitor.net/modules.php?op=modload&name=News&file=article&sid=145607> (accessed 01 March 2010)

² See page 24 of research paper

³ See <http://www.irisheconomy.ie/index.php/2010/02/26/commission-approves-nama> (accessed 01 March 2010)

*the valuation methodology set out in the valuation regulations will be amended to take account of the Commission's decision. Within the valuation methodology a higher remuneration risk margin and higher enforcement costs will be applied. There will however be a reduction in the interest rates used for loan discounting purposes. In overall terms the proposed valuation methodology which the Commission has endorsed is broadly as originally proposed by Government.*⁴

This statement seems to recognise that the approval was in fact quite heavily qualified. For example “the Commission will assess the compatibility (and, in particular, the actual transfer price) of the transferred assets when they are separately notified by the Irish authorities. These individual reviews will include a claw back mechanism in case of excess payments.”⁵

In other words, the transactions of NAMA will be watched over at an EU level.

OTHER ISSUES

In section 8 of the research paper, some other issues were flagged up as of potential interest to Members of the Committee.

Demarcation of staffing

One of the recurring themes in blogs and commentary on the NAMA Scheme was questions over who would be appointed to run it.

The Board of NAMA was unveiled in the week before Christmas. It will be chaired by Frank Daly, former Revenue Chairman, and includes Steven Steelig, an International Monetary Fund executive due to retire from the IMF soon.⁶

It may be of interest the members to note that, according to recent media reports, Mr Steelig warned the Irish Government in April 2009 that the NAMA Scheme would not lead to significant bank lending – although the IMF itself did lend some measure of support to the NAMA Scheme.

The senior executive appointments were announced in February 2010.⁷ It appears from the biographies that neither the Board nor the senior management team comprises individuals who held senior positions in institutions participating in the NAMA Scheme – though that does not necessarily mean that they did not hold positions in other international financial institutions that got into difficulties.

⁴ Department of Finance Press Release 26 February 2010, available at:

<http://www.finance.gov.ie/viewdoc.asp?DocID=6221> (accessed 01 March 2010)

⁵ <http://www.eumonitor.net/modules.php?op=modload&name=News&file=article&sid=145607>

⁶ The full NAMA Board membership is available at:

<http://www.nama.ie/Publications/2010/NAMAboard.pdf> (accessed 01 March 2010)

⁷ See http://www.nama.ie/Publications/2010/Announcement_NAMA_FEB2010.pdf (accessed 01 March 2010)

Firesale of assets

Minister Sammy Wilson also recently obtained further assurances from the Irish Finance Minister that “a full register of Northern Irish loans being transferred to NAMA will be available shortly and that there will not be a ‘firesale’ of Northern Ireland based assets.”

The Minister also announced that an advisory committee drawn from Northern Ireland would be established to work with the NAMA management.⁸

COST TO THE IRISH STATE

By the end of 2009, the Irish Government’s running total on bank capital injections stood at €11bn, and an additional €2.4bn was being sought by building societies. It has been reported that the overall bill could exceed €20bn.⁹

Professor Partick Honohan (the Irish Central Bank Governor) recently stated that “in time [the banks] would definitely require more capital” and warned that “without recapitalisation NAMA would not work.”¹⁰ It should be noted that in the NTMA report summarising options for resolving the banking crisis, recapitalisation was one of the options that was rejected in favour of the an asset-management approach.¹¹

The overall NAMA bill for purchasing assets is planned to be around €54bn – which is about a third of annual gross national product.¹²

THE HOUSING MARKET

The aim of the NAMA Scheme is to get a return for the Irish State from the transferred assets over a ten-year period. As the housing market continues to be weak and many predict further falls in values,¹³ that aspiration may become increasingly difficult to achieve. Clearly, a lot of how the housing market is or will be is based on forecasting and is not entirely reliable.

Nonetheless, the latest Permanent TSB/ESRI House Price Index figures show:

- Average national house prices down 18.5% in 2009

⁸ Irish Times ‘Finance Ministers to set up committee on NAMA NI loans’ (18 February 2010) <http://www.irishtimes.com/newspaper/finance/2010/0218/1224264714456.html> (accessed 01 march 2010)

⁹ Irish Times ‘Annus horribilis for Irish banks’ (31 December 2009)

¹⁰ RTE News ‘Honohan says banks will need more capital’ (22 February 2010) <http://www.rte.ie/business/2010/0222/centralbank.html> (accessed 01 march 2010)

¹¹ See page 5 of research paper.

¹² Eamon Quinn ‘Time to come clean on NAMA’ Irish Times (2 March 2010)

¹³ See for example ‘The 2010 Property Market In Ireland’ (19 February 2010)

<http://www.articlesbase.com/mortgage-articles/the-2010-property-market-in-ireland-1878639.html>

- Average national prices now at April 2003 levels
- 31.5% decrease since peak in February 2007¹⁴

March 2010

¹⁴ See http://www.esri.ie/irish_economy/permanent_tsbetri_house_p (accessed 01 March 2010)