NATIONAL ASSET MANAGEMNT AGENCY (NAMA) – BRIEFING NOTE FOR FINANCE AND PERSONNEL COMMITTEE

MEETING WITH MINISTER LENIHAN - SUMMARY:

- The Finance Minister met with his Dublin counterpart Brian Lenihan on 8th September 2009 to discuss the issue of NAMA.

- At the meeting Minister Lenihan indicated that the value of Northern Ireland based loans likely to be transferred to NAMA would total €4.8 billion – much lower than the earlier estimates of circa €20 billion. However, even €4.8 billion of local asset exposure has considerable implications for our economy.

- Minister Lenihan indicated that it would not be possible to expand the NAMA seven person Board to include a Northern Ireland – specific representative. However, Minister Lenihan indicated that DFP could communicate directly to NAMA through an advisory committee, which would report directly to the Board. This advisory board would be established under Section 32 1(A) of the revised draft legislation. Minister Lenihan agreed that the advisory panel working to the NAMA Board should have some form of direct line of communication to DFP on the management of the Northern Ireland related assets.

- Minister Lenihan also provided an assurance that it was in no-one's interest to undertake a 'firesale' of Northern Ireland based assets. The loans exposed had to be carefully managed.

- The two Ministers agreed to discuss this issue further once the NAMA legislation has been enacted.

DRAFT LEGISLATION:

1. The Irish Department of Finance published its draft NAMA legislation on the 10th September 2009. The main points flowing from the draft legislation are summarised below.

Rationale for NAMA

2. The rationale for NAMA acquiring banks' debt is not that the assets are inherently worthless, but that they are amongst assets whose worth is harder to assess in the current constrained economic environment. Financial and capital markets are uncertain about the overall impact of such property loans on the sustainability of the affected financial institutions.

3. The objective is to provide the banks with a clean bill of health, strengthen their balance sheets, reduce uncertainty regarding bad debts and, ultimately, to ensure the flow of credit.

How will NAMA work?

4. There are three key steps involved:
   - Step 1: NAMA will purchase the loans from participating banks at a significant discount – these will be the riskiest elements of banks' portfolios – the 'toxic debts'.
   - Step 2: NAMA will pay the banks for the loans, on the basis of new valuations (based upon a pre-determined methodology) – banks book value will not be a factor and the banks will therefore have to incur a loss at the time of transfer. The payment for the loans will be in the form of Government securities and/or guaranteed securities.
   - Step 3: NAMA will manage the loans, directly or indirectly, to ensure maximum return, whilst continuing to collect interest due/pursue outstanding debt.

Applicable Assets

5. The assets to be covered by NAMA include all loans in respect of the purchase of land for development and associated work in progress. Certain

property investment loans will also be considered. Land and development loans outside of Ireland (including Northern Ireland) *will* be eligible for transfer to NAMA, subject to consideration of the legal issues involved. This is essential to ensure that banks' balance sheets are effectively cleansed.

Pricing / Terms of Loans Transferred

6. The loan books will be purchased by NAMA at an appropriate price. Each will be reviewed individually to ensure that banks are cleared of the identified riskiest loan portfolios. Pricing will depend upon an assessment of the loans' long term economic value and the risk being transferred to NAMA, in line with European Commission guidance. The process is also subject to EU State Aid approval.

7. The banks' book value of the loans will not be a factor and the banks will have to recognise a loss on their books at the time of transfer for the difference between the book value and the amount paid by NAMA.

8. Existing loan terms and conditions will remain in place. Individual loan terms will be reviewed by NAMA and the agency will have commercial independence in dealing with the loans acquired. With regards to developers whose loans are transferred to NAMA, like other loan holders, they will continue to be liable for their loan obligations. The loan counterpart merely changes from the relevant bank to NAMA.

Size / Funding of NAMA

9. The NAMA asset portfolio will total €77 billion of transferring assets. The loans sold to NAMA will be paid for either in Government Bonds or in Government guaranteed bonds issued by NAMA.

10. NAMA will manage its loan portfolio over a period of years to ensure that the optimal value is obtained for the taxpayer and will endeavour to ensure all loan agreements are honoured in full. Where write-downs are made, this will reflect commercial reality and will be offset by other performing loans within the NAMA portfolio. When NAMA is wound up, the government will determine

whether a profit or a loss has been made in its lifetime. Any profits will accrue to the State; any shortfall will be recovered by the application of a levy.

What Will NAMA Look Like?

11. NAMA will be a separate body with its own Board appointed by the Irish Finance Minister. Its staffing resources will be provided by the Irish National Treasury Management Agency. NAMA will have all necessary commercial powers of a financial asset management company to establish subsidiaries, operate through agents, buy and sell assets, manage loans and to take action in relation to debts owed.

12. The revised draft NAMA Bill 2009 published on 10th September 2009 does not specify a role for the NI Executive or any of the other jurisdictions with significant asset exposure in RoI (UK, US or EU).

13. The revised NAMA draft legislation addressed 4 new issues which were politically contentious within the ROI. These issues related to: making it a criminal offence to lobby NAMA; creating a new tax threshold on rezoned land; asking board members of banks appointed before 2008 to stand down; and creating a mechanism to equalise risk sharing between the banks and the taxpayer.

14. In the opening debate on the draft Bill Minister Lenihan confirmed that:

Value of Assets:

- NAMA will purchase loans with a book value of approximately **€77 billion**, with the following breakdown:
  - Allied Irish Bank: €24 billion;
  - Anglo Irish Bank: €28 billion;
  - Bank of Ireland: €16 billion;
  - The Educational Building Society: €1 billion; and
  - Irish Nationwide Building Society: €8 billion

- It is projected that 36% of the assets will be land; 28% development property; and 36% associated commercial loans.

- The geographical breakdown of the assets is 67% in the Republic of Ireland, 20% in Great Britain, 6% in Northern Ireland and the remainder mainly in Europe and USA.

- The book value of loans transferred to NAMA with a basis in Northern Ireland is **€4.8 billion** (confirmed by Minister Lenihan in the 8th September meeting with Minister Wilson).

Valuation:

- The valuation of the assets will follow a complicated procedure, which is subject to EU Commission guidelines.

- The price paid by NAMA for the assets will be significantly less than €77 billion – estimated at **€54 billion**. This represents a 30% discount.

- The current estimated market value of the assets is **€47 billion.** This is based on an assumption of a 50% fall in average RoI property values since the 2007 peak.

- Hence, an upward adjustment of **€7 billion** has been applied to the estimated current market value to account for long term economic value.

Risk Sharing:

- The €7 billion allowance for economic value will be de-risked (from the standpoint of the tax-payer).

- This de-risking will come about through two mechanisms:

  - The NAMA payment for some of the assets transferred (around 5%) will be in the form of subordinated bonds. This would put the banks at risk if NAMA were to eventually occur losses, without allowing the banks to share in any upside of potential gains,

- The introduction of a levy if on the winding up of NAMA there were to be a deficit.

NAMA Break-Even Point

- Taking account of the above valuation and risk sharing arrangements it is estimated that NAMA will break even with less than a 10% uplift over the current market price over the next 10 years. A 10% uplift would mean that RoI property prices would still be 45% below their late 2006 values.