

3 February 2016

Mr Patsy McGlone MLA  
Chairman  
Committee for Enterprise, Trade & Investment  
The Northern Irish Assembly  
Room 375, Parliament Buildings  
Ballymiscaw, Stormont  
Belfast, BT4 3XX

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**By post and by email**

Dear Mr McGlone,

I acknowledge receipt of your letter of 12 January 2016. This letter is written on behalf of Cerberus European Capital Advisors LLP and its affiliates ("**Cerberus**").

Cerberus understands that the Committee for Enterprise, Trade & Investment (the "**Committee**"), plays an important role in Northern Ireland, both in terms of supporting the Minister of Enterprise, Trade and Investment on matters within his responsibility as a Minister and performing a scrutiny, policy development and consultation role with respect to the Department of Enterprise, Trade and Investment.

As a responsible corporate citizen, Cerberus wishes to provide appropriate assistance to the Committee. However, we are not familiar with the detail of the Committee's specific Terms of Reference. In particular, the rationale for the Committee inviting Bell & Company to appear before it, the focus of the Committee's enquiries in relation to Cerberus (without notice to us) and the basis on which the Committee considers those enquiries to fall within its remit are unclear to us. The reason for the presence of representatives from the Committee for Finance and Personnel at the hearing on 12 January 2016 was also unclear.

Cerberus is very concerned by the allegations and inferences that have been made before the Committee. Cerberus take its responsibilities as investor and lender very seriously, acting within the framework of local laws and taking account of local cultural practice, endeavouring to develop and maintain positive relationships with borrowers, other local stakeholders and the communities in which they live and work.

In addition to viewing the coverage of the proceedings on 12 January 2016, Cerberus has reviewed a copy of the briefing paper prepared by Bell & Company in advance of its attendance, which was published on the Committee's website. We note that Mr McGlone referred on 12 January to a letter from Bell & Company which prompted the Committee to agree on 24 November 2015 to invite Bell & Company to appear before it. We have not seen this letter and would be grateful for a copy of it so that we may consider any references in it to us or our business.

From the material that we have seen, Bell & Company's primary concern appears to be with respect to the situation of the borrowers that it has been appointed to represent. A number of matters discussed with or raised by Bell & Company before the Committee have been misrepresented and/or raised out of commercial context. As is explained in more detail in the Appendix to this letter, Cerberus has a long and successful track record in restructuring distressed real estate loans, supporting improvements to the underlying properties and working cooperatively with borrowers. Typically and where possible, Cerberus' preferred outcome is to reach agreed resolutions with borrowers which are appropriately tailored to borrowers' circumstances. The Committee will appreciate that it is not always possible for a consensual resolution to be reached in every case. This can be for a number of reasons, including situations where enforcement proceedings were started prior to Cerberus' acquisition of a loan and/or where a borrower is unwilling to negotiate or is unrealistic about the economic situation in which they find themselves following a default. Whilst we are anxious to correct the record in relation to the matters raised by Bell & Company, Cerberus is mindful of the lawful interests of the borrowers with whom it has contractual relationships. It would be inappropriate for Cerberus to comment in detail on those cases or any other individual situation.

As the Committee will no doubt understand, as private commercial entities, Cerberus is entitled to have the privacy of its commercial strategy and financial affairs respected. In any event, we do not understand such matters to fall within the Committee's remit.

Moreover, Bell & Company conflates a small number of individual borrower situations with Cerberus' approach to investment and lending more generally, making sweeping and unsubstantiated assertions and inferences about Cerberus' approach in Northern Ireland. In this regard, we note that Bell & Company represents only 11 of the 455 connections with whom Cerberus is presently dealing in Northern Ireland. Statistically, of the Northern Irish components of the portfolios acquired by Cerberus, Bell & Company represents 2.4% of connections, 3.1% of borrowers, 1.9% of loans, 1.6% of secured properties and 0.3% of the overall acquired claim value as at the date of acquisition. For the avoidance of doubt, Bell & Company does not represent any borrowers in respect of the Project Eagle portfolio.

In light of the aforementioned considerations, Cerberus considers that we can best assist the Committee by providing further written information in relation to those factual matters which we understand to be most germane to its enquiries, namely Cerberus' impact on trade, industry and the wider economy in Northern Ireland. Accordingly, in lieu of sending a representative to attend the Committee meeting on 9 February 2016, we provide this information in the Appendix to this letter for the Committee's consideration, which we trust will be of assistance to the Committee.

Yours sincerely,

Liam Strong  
Chief Executive  
Cerberus European Capital Advisors LLP

## Appendix

Significant objective signs of recovery in the commercial and real estate markets in Northern Ireland have occurred since 2014. The improving state of the economy in Northern Ireland, following a period of turbulence, was acknowledged on a number of occasions during the Committee meeting on 12 January 2016. Media and industry analysts and commentators have noted that the aggregate value of transactions in these sectors in Northern Ireland in 2014 was almost £500 million, which marked almost a three-fold increase over the aggregate value of transactions in 2013. A further £400 million was invested in the Northern Ireland real estate sector alone by investors in 2015.

Through its significant investments in non-performing loan portfolios with secured properties in or connections with Northern Ireland, Cerberus has been very proud to contribute to these positive developments, both for individual borrowers and the broader economy in Northern Ireland. The acquisition by Cerberus of these loan portfolios has accelerated the resolution of a material number of such loans, resulted in the write off of material portions of such loan portfolios and contributed at many levels to the local economy.

As the Committee may be aware, Cerberus' investments involving Northern Ireland include the following:

- the Eagle portfolio acquired from NAMA in June 2014, which had an Unpaid Principal Balance (“UPB”) at the time of acquisition of £4.3 billion, consisting of approximately 57 borrower groups, over 1600 loans with around 800 properties. More than 81% of this UPB was secured by properties in Northern Ireland or the Republic of Ireland;
- the ARAN portfolio acquired from RBS in December 2014 which had a UPB at the time of acquisition of €5.53 billion, consisting of approximately 1300 borrower groups, 5580 loans with around 5500 properties. At the time of the acquisition, more than 75% of the UPB was secured by properties in the Republic of Ireland; approximately 20% was secured by properties in Northern Ireland; and
- the Ram portfolio acquired from Ulster Bank in May 2015 which had a UPB at the time of acquisition of £1.33 billion, consisting of 116 borrower groups, over 1100 loans with around 680 properties, over 85% of which were in Northern Ireland.

The collective UPB across all these portfolios at the time of their respective acquisitions was approximately £9.9 billion (allowing for currency conversions)<sup>1</sup>. Cerberus has already written-off approximately £3.62 billion of borrower debt across these portfolios (as well as release of personal or corporate guarantees, where appropriate) representing more than 36.6% of the collective UPB (of which £1.3 billion relates to Northern Ireland).

Since Cerberus' acquisition of these portfolios, over 1300 secured properties have been sold or refinanced (representing approximately 12.7% of the properties acquired). Investor confidence and liquidity have demonstrably increased. New investors have been involved in the refinancing of loans and submitting bids in relation to properties connected with the portfolios. In particular, there

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<sup>1</sup> Applying an exchange rate of 0.79, the ARAN UPB value of €5.53 billion equates to £4.36 billion.

have been investments in excess of £430 million in enterprises comprised within the Eagle portfolio since its purchase by Cerberus, with 587 assets having been sold or refinanced.

Cerberus' ownership of the loan portfolios has also created employment and is stimulating local economic growth in various sectors (including construction, development and professional services). The refinancing of loans and repositioning of assets that has been made possible by Cerberus' purchase of the loan portfolios has led to major construction and refurbishment projects in Northern Ireland, including the development of two major housing schemes and remedial work on high profile properties in the retail sector. In addition, the return of liquidity to the Northern Irish property market has generated a significant upturn in work for local estate agents, architects, engineers, contractors, chartered surveyors, insolvency practitioners and accountants.

Cerberus has a long and successful track record in restructuring distressed real estate loans, supporting improvements to the underlying properties and working cooperatively with borrowers. Cerberus thoroughly and objectively analyses each case (including the value of the underlying secured real estate, extent of other recourse available and income flows from the secured property), and is confident in its process for arriving at fair and reliable assessments. Across all of its investments in distressed commercial real estate portfolios, Cerberus aims to treat every borrower fairly and consistently and demands the same from its appointed agents. Pursuant to that objective, Cerberus implements substantially the same process for its engagement with borrowers across all its portfolios. Each borrower is encouraged to submit a business plan and has a number of opportunities to meet with and engage with Cerberus and Capita with the aim of achieving a consensual plan. The process for determining the strategy typically takes a minimum of several months. Where the property was not subject to enforcement proceedings prior to acquisition, meetings are held regularly to discuss resolution options and progress since Cerberus acquired the portfolio. The frequency and duration of those meetings depends largely upon whether there have been material developments or changes to the borrower's proposals since the previous meetings and the borrower's payment history.

Typically, and where possible, Cerberus' preferred outcome is to reach agreed resolutions with borrowers (such as discounted payoffs, settlement and sell down, combinations thereof or renewed performance under the original or a restructured loan), which are appropriately tailored to borrowers' circumstances. Such resolutions can take many forms. Loan restructuring can enable distressed local business to continue trading, with the result that jobs can be saved.

The Committee will appreciate that it is not always possible for a consensual resolution to be reached in every case. However, the broader context warrants scrutiny. Since Cerberus has acquired its loan portfolios involving Northern Ireland, Cerberus' agents have only needed to commence enforcement proceedings in respect of 59 out of 455 connections in Northern Ireland (amounting to 12.9% of all connections in Northern Ireland), in circumstances where an agreed resolution has not been possible. Even after the commencement of such proceedings, Cerberus' affiliates still aim to reach consensual resolutions. The overwhelming majority of the connections are resolved in this manner.