Opening Statement by

Mr. Frank Daly, Chairman of NAMA, to the

Joint Committee on Finance, Public Expenditure and Reform

Thursday, 13 July 2017

Chairman, Deputies and Senators,

NAMA was created as one of a number of policy responses to the financial and banking crisis. It was never intended that it would be a permanent feature of the landscape. NAMA was mandated by the Oireachtas in late 2009 to deal expeditiously with its acquired loan portfolio and to extract best value from that portfolio. It was widely accepted that its mandate was to be fulfilled over a period of about a decade rather than decades. This was the understanding of the EU Commission when it approved the NAMA scheme in February 2010. As market conditions reverted to normality, it was assumed that NAMA would no longer be required.

We have now entered the final phase of our work – our wind-down - which involves completing our remaining deleveraging activity and implementing our residential delivery programme and Dublin Docklands SDZ programme. Under the NAMA Act, it is a matter for the Minister for Finance to determine when NAMA has completed its work. Our current expectation is that our work will be largely completed by 2020.

Based on that assumption, our focus for the next three years will be threefold. First, maximise the return to the State from our remaining loans. Second, subject to commercial viability, facilitate the development of residential sites that secure our loans. Third, subject to commercial viability, facilitate the development of sites in the Dublin Docklands SDZ that secure our loans. I will give a brief overview of each of the three objectives.

Maximise the State's return

We last appeared before this Committee in December 2015. The intervening period has seen very good progress made on our key debt redemption objective. We redeemed €5.5 billion of senior debt in 2016 and another €2.1 billion in the first half of this year. Our senior debt is now down to €500m, less than 2% of the €30.2 billion originally issued. We expect to redeem that residual €500m senior debt later in the year.

In my view, elimination of this State-guaranteed contingent liability for Irish taxpayers is a significant achievement, particularly bearing in mind the widely-aired commentary in 2009 that NAMA would lose billions over its lifetime. We take pride in the fact that our senior debt has been, to all intents and purposes, redeemed and that this has been achieved three years ahead of the 2020 target date originally envisaged. This is a major burden which an already heavily-indebted State could not have carried.

Furthermore, the progress that was made in reducing the senior debt by two-thirds (€20 billion) between 2014 and 2016 was a factor in enabling Ireland to re-access the debt markets and in stabilising and reducing the funding cost of Ireland's debt.

We expect to redeem our subordinated debt of €1.6 billion by its first call date of March 2020. And, assuming that the cash proceeds realised from our remaining loans are in line with our current projections, we would hope to be in a position to transfer a surplus of about €3 billion to the Exchequer when we complete our work.

I should point out that there is much work left to be done if we are to realise that €3 billion. The carrying value of the overall loan portfolio at the end of 2016 was €4 billion and approximately 60% of this related to the residential delivery and Dublin Docklands SDZ programmes. The other 40% of the loan portfolio was secured for the most part by a large volume of low-value assets, many of which will require close and rigorous workout if their value is to be optimised. To date, the resolution of some of these assets has been delayed by litigation or by other complications.

Residential delivery

The second major focus for us over the coming years will be to facilitate residential delivery. In late 2013, we were asked by the then Minister for Finance if we could facilitate and fund the delivery of 4,500 homes by end-2016. That target was exceeded.

We remain committed to facilitating and funding much-needed housing delivery in the period to 2020. Estimates of housing supply requirements now indicate that Ireland will need 30,000 – 35,000 new units annually in the coming years. Taking the period 2017-2020, we estimate that NAMA debtors and receivers, even operating at full capacity, can deliver only about one-seventh of the 120,000 – 140,000 units that will be required over that period. It is clear that the market is responding to this need - new residential funding and delivery platforms are being established on a regular basis - but no one expects supply and demand to be in balance for quite some time.

From our perspective, much progress has been made in terms of preparing a pipeline of sites for development. In addition to the 5,300 units delivered to date, another 9,200 units are either under construction or have obtained planning permission. Sites with a delivery capacity of another 9,500 units are either in the planning system or will be within a year. Pre-planning and feasibility work is underway on sites which have a delivery capacity for another 17,000 units.

We continue to work towards maximising the delivery of social housing from properties controlled by our debtors and receivers. We offered almost 7,000 vacant houses and apartments owned by our debtors and receivers to the Housing Agency. Demand was confirmed for 2,768 of these properties and, to date, almost 2,400 units have been delivered.

In total NAMA's expenditure on social housing (through drawn and committed payments) amounts to approximately €330m. This includes costs incurred by our NARPS vehicle in purchasing units for onward lease to housing bodies and local authorities. It also includes capital expenditure incurred on the completion of housing units including fit-out costs and, where necessary, remediation costs.

Dublin Docklands SDZ

A third major focus for NAMA over the next three years will be to facilitate the development of our interests in the Dublin Docklands Strategic Development Zone (SDZ). This area has the capacity to deliver 4 million square feet of commercial space and over 2,000 residential units.

Again much progress has been made over recent years. Construction has started on sites which are expected to deliver 1.92 million square feet of commercial space. Planning permission has been obtained for another 620,000 square feet. Pre-planning work is underway on another

760,000 square feet. As regards the other 700,000 square feet of commercial space, one project has been completed and we have sold our interest in the other projects.

A positive aspect of this activity is that most of the development work being carried out in the Docklands SDZ is being funded through private capital. We have achieved our objective of acting as a catalyst for development without putting taxpayers' money at risk on any major scale.

Development of the Dublin Docklands SDZ will not only enhance the commercial return on our acquired loans but will also make a significant economic contribution by increasing the supply of prime office accommodation, thereby helping to attract foreign direct investment (FDI) to Ireland.

Conclusion

With NAMA phasing down its activities over the next three years as we realise the last €4 billion of our portfolio and with alternative employment opportunities readily available for many of our staff, we face a major challenge in retaining the expertise necessary to complete our work. As you may know, the majority of NAMA staff are employed on specified purpose contracts and, accordingly, have limited job security. The voluntary redundancy programme approved by the former Minister for Finance, Deputy Michael Noonan, in 2014 has been effective to date in stemming what could otherwise have been a major exodus of staff but, with a very strong economy and construction and associated skills in strong demand, it is a challenge every day to ensure that we continue to deliver on our objectives.

Over the coming year, we look forward to co-operating fully with the Commission of Investigation into the disposal of the Project Eagle loan portfolio. We note that the Commission's Terms of Reference provide that it will avail of appropriate and independent commercial and financial expertise to inform its investigation. From our perspective, the fact that analysis of a major loan sale is to be informed by relevant expertise is indeed welcome.

Finally, I do not accept the view that NAMA moved too quickly in terms of asset and loan sales and in terms of redeeming its senior debt. We had to take advantage of favourable market opportunities when they presented themselves. In the case of the Irish market, market recovery began tentatively in 2012 before gathering pace in the subsequent years from 2014 onwards.

Given the vast scale of our exposure, we had no alternative but to reduce our exposure on a phased and orderly basis. Failure to take advantage of the recovery would have been highly irresponsible, particularly in a small market such as Ireland which is very exposed to adverse financial and market developments elsewhere. There was no certainty at any point in 2014 and 2015 that market conditions would remain positive in Ireland or in the UK. The folly of assuming prolonged favourable market conditions is clearly illustrated by the outcome of the UK Brexit referendum and its impact of the UK commercial property market.

Those who say that we moved too quickly would have a different tune now if we had missed the boat.

Thank you.