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The anatomy of Nama

By Simon Carswell



The legislation establishing the National Asset Management Agency (Nama) has passed all stages of the Dáil and Seanad and will now go to the President. Nama was designed initially by economist Peter Bacon and later in further greater detail by officials from the National Treasury Management Agency (NTMA), the Department of Finance and the Attorney General's office. The aim of Nama is to take all loans – good and bad – out of domestic banks that had been provided for property development and land speculation with a view to development. The purpose is to remove

uncertainty by taking entire development loan portfolios – the most toxic class of assets within the banks – off their books. The strategy is that the cost of covering the bad loans will be covered by repayments on the good loans and by selling off the properties and other assets backed by the bad borrowings. In addition to the development loans being acquired, Nama will take over associated loans, which are largely borrowings backed by commercial investment properties such as office blocks, shopping centres and rented buildings, that were provided as

security for the development loans. Of the six financial institutions protected under the State bank guarantee, only one bank, Irish Life & Permanent's lender Permanent TSB, is not participating in Nama. Largely a home loans and residential mortgage lender, the bank avoided development lending. The Government has estimated that it will purchase loans with a face value of €77 billion from the five other lenders at a cost of €54 billion, representing an average discount of 30 per cent. However, the discount applied to loans will vary from institution to

institution and will not be decided until the loans of 1,500 to 2,000 borrowers are transferred by mid-2010. Individual development loans below €5 million, with the exception of loans at EBS, will remain with the institutions. The Government's other aim with Nama is to inject fresh liquidity into the banks so they can provide new loans to consumers and business people who are struggling due to the shortage of credit as a result of the bad debts plaguing the financial institutions.

1 The bailouts

The shock from the US subprime crisis, which hit a peak with the collapse of Wall Street's Lehman Brothers in September 2008, caused a worldwide financial crisis. On September 30th, facing a dangerous shortage of cash within the Irish banking system, the Government guaranteed all deposits and most of the debts across the six domestic financial institutions. The heavy exposure of the collapsing property market put the capital reserves of the institutions under severe pressure and so far the Government has this year injected €11 billion into the three biggest banks to absorb rising losses on loans. Anglo Irish Bank, Allied Irish Banks (AIB) and Bank of Ireland are expected to need further capital injections as they incur losses transferring the loans to Nama as the Government is buying them at a discount. The capital requirements for each institution will vary but will depend on the discount applied to each institution's loans and how much each bank needs to replenish its capital reserves. The Government has allowed the banks the chance to raise the capital privately from investors first. The banks will also be able to use profits over the coming months against losses. However, Minister for Finance Brian Lenihan has said the State will take larger stakes in the banks if necessary and this may lead to the State taking majority stakes in the banks.

Anglo Irish Bank
To be transferred to Nama: €28.4
Estimated discount on loans: 33%
State investment to date: €4bn
State's likely future investment: €3.5-6bn

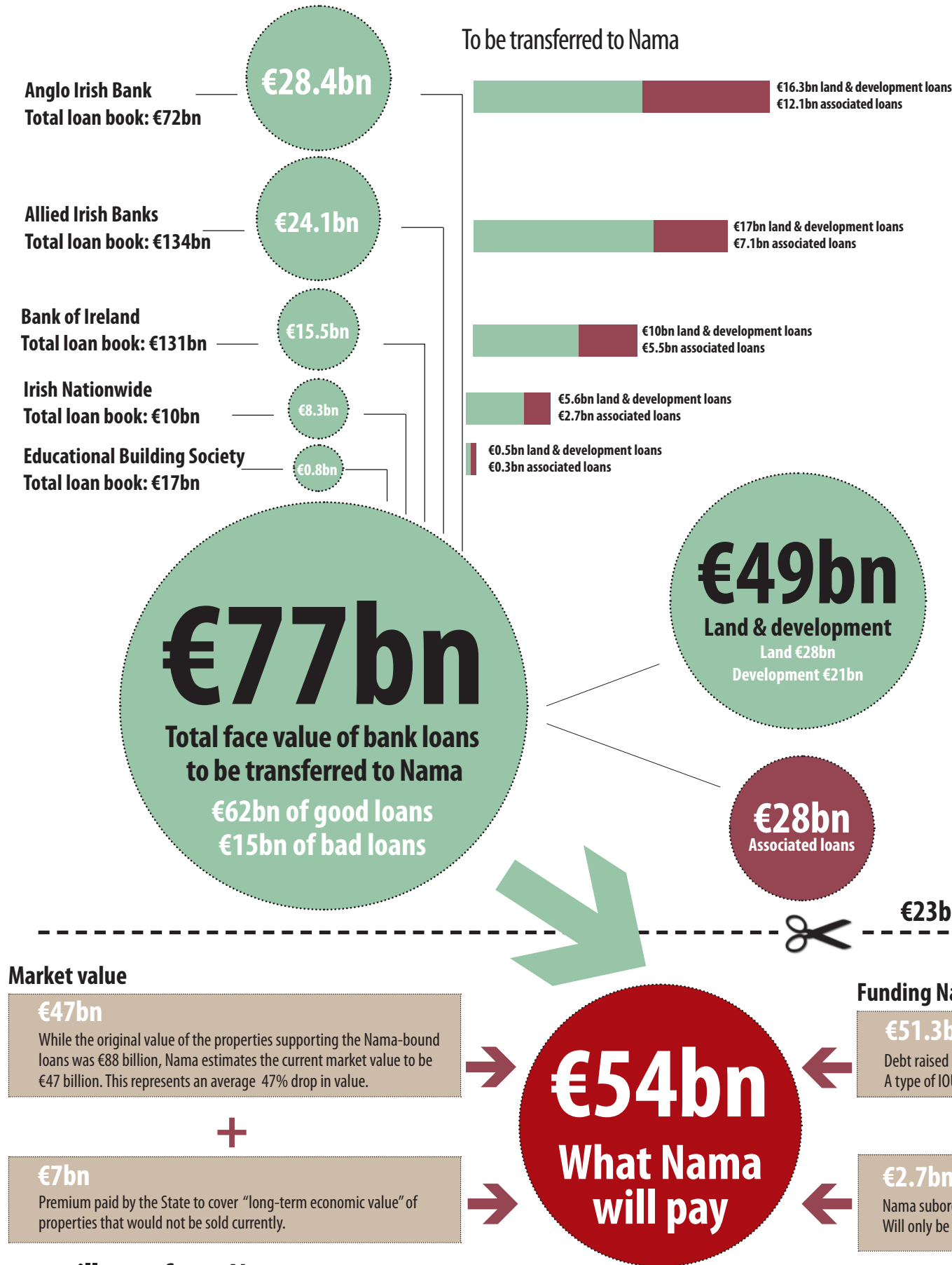
Allied Irish Banks
To be transferred to Nama: €24.1bn
Estimated discount on loans: 24%
State investment to date: €3.5bn
Likely future capital requirements: €1.5-€2.5bn

Bank of Ireland
To be transferred to Nama: €15.5bn
Estimated discount on loans: 18%
State investment to date: €3.5bn
Likely future capital requirements: €1.5-2bn

Irish Nationwide
To be transferred to Nama: €8.3bn
Estimated discount on loans: 37%
State investment to date: nil
State's likely future investment: €1bn

Educational Building Society
To be transferred to Nama: €0.8bn
Estimated discount on loan: 35%
State investment to date: nil
State's likely future investment: €300m

2 The Nama plan: financial breakdown



3 Where the assets are located

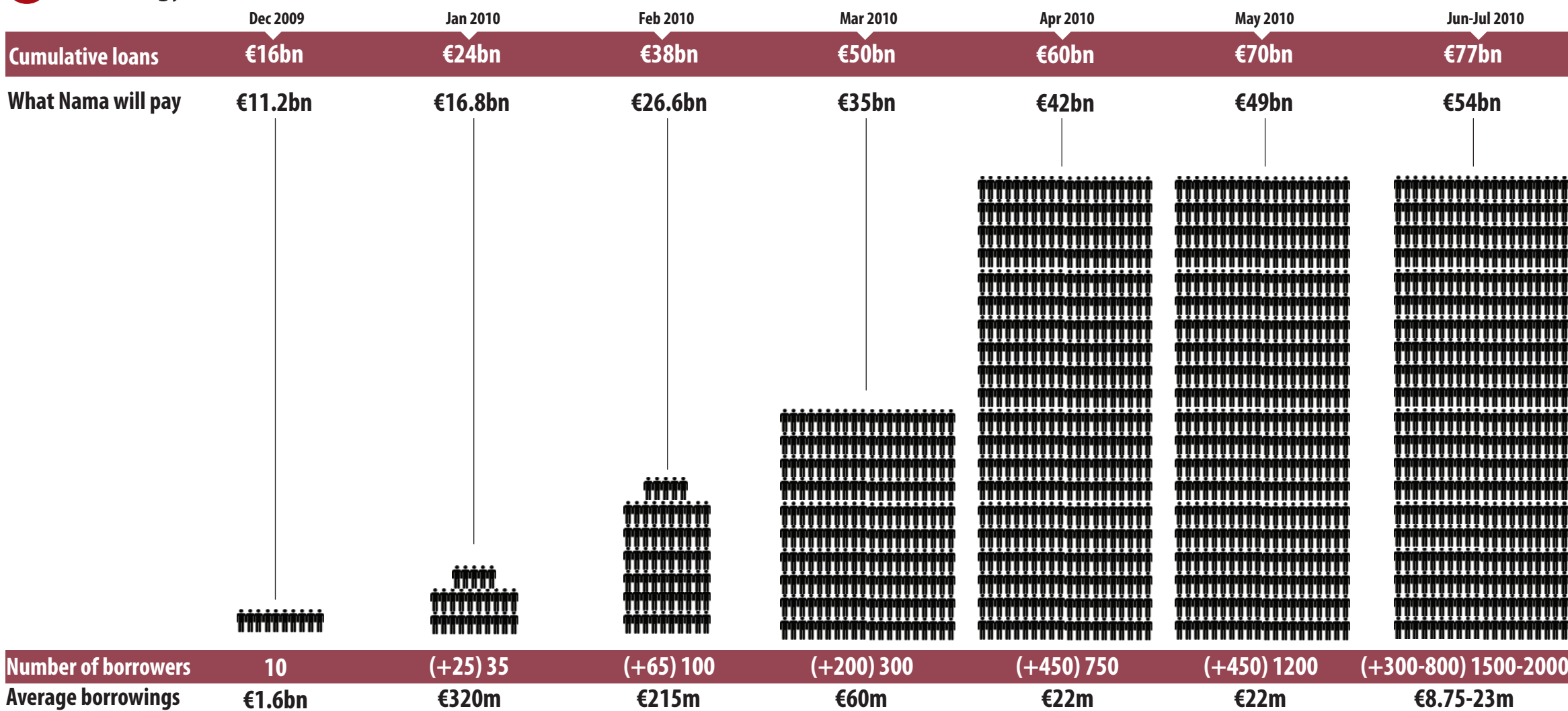


Location	L&D loans €bn	Assoc loans €bn	Total €bn	% of Total
Ireland	33.13	18.35	51.48	66.8%
Northern Ireland	3.29	1.51	4.80	6.2%
Great Britain	10.34	5.59	15.93	20.7%
USA	1.39	0.66	2.05	2.7%
Germany	0.05	1.01	1.06	1.4%
Portugal	0.46	0.14	0.60	0.7%
France	0.39	0.13	0.52	0.7%
Czech Republic	0.11	0.07	0.18	0.2%
Italy	0.04	0.09	0.13	0.2%
Spain	0.05	0.07	0.12	0.2%
Other	0.13	0.11	0.24	0.3%
Total	49.38	27.73	77.1	100%

4 How Nama expects to make a €5.5bn profit

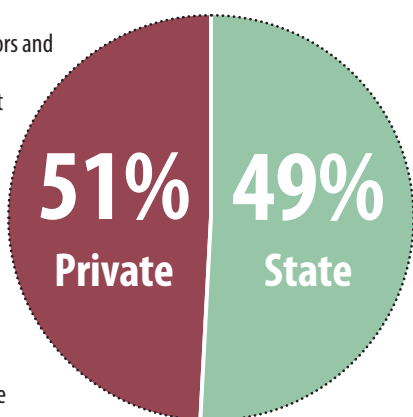
The Government estimates that Nama will receive €12 billion in interest payments from good developers owing €62 billion of the €77 billion loans, yet the State will have to pay €16 billion in interest payments owing on the Nama bonds and subordinated debt – both types of Government IOUs – that will be issued to buy the loans at the outset. Officials expect Nama to recover €4 billion from selling properties and other assets backing the €15 billion in bad loans. However, the €77 billion face value of the loans includes €9 billion in interest “rolled up” – in other words, interest postponed until the developments are in place. The Government says that interest will also be covered in repayments of the €62 billion in good loans. The Government says it will pay a variable (fluctuating) interest rate of about 1.5 per cent, while performing borrowers, who account for 40 per cent of the loans, will pay an average rate of 2 per cent over the standard Euribor rate, the rate at which banks borrow money from one another. This is currently 0.715 per cent. Fees and expenses paid by Nama are estimated to top €2.64 billion over the 11-year life of the agency. The Government expects the agency to make a profit of €5.5 billion by 2020.

5 Chronology: when the loans will transfer to Nama



7 Owners of Nama: the SPV

The Government has created a so-called special purpose vehicle (SPV), a separate company which will be 51 per cent owned by private investors and 49 per cent owned by the State. The State is the minority shareholder but will hold a veto over the company. The Nama SPV, a separate legal entity, will own the €77 billion face value loans. The ownership structure of Nama has been organised as such to keep the €54 billion in debt off the State's balance sheet so that the figure doesn't count towards Government debt. The structure has been approved by the EU statistics agency Eurostat.



8 Nama structure

