Board of Nama
c/o Mr Frank Daly
Chairman
Nama
Treasury Building
Grand Canal Street
Dublin 2

[redacted]

Copied to:
Brian Cowen TD, An Taoiseach
Brian Lenihan TD, Minister for Finance
Richard Bruton TD, Opposition Spokesperson
Joan Burton TD, Opposition Spokesperson

Wednesday 2nd June 2010

Dear Mr Daly

Whilst appreciating that Nama's board has an extremely difficult job, I wish as a taxpayer to communicate with the board given that, in my opinion, it is on the point of writing off billions and billions of taxpayers' money.

I am deeply concerned about the Chairman's speech at Association of Compliance Officers Annual Dinner on Thursday, 27th May last where he said (presumably reflecting the board's view) that "in essence, NAMA's core commercial objective will be to recover for the taxpayer whatever it has paid for the loans in addition to whatever it has invested to enhance property assets underlying those loans. It is expected to have a lifespan of seven to ten years. When it has achieved its core objective, it will be wound up".

Surely, this cannot be true and it begs the question as to the point of Nama given that it has contributed little towards realising the original underlying "political" objectives of helping to improve the flow of credit within the Irish economy and heading off the need for nationalisation of banks. Instead, it appears to be evolving into an expensive intermediary set up to write down bad loans, effectively forgiving imprudent borrowers, and to soak up the losses of reckless bankers.

On 25th April, a month before the ACOA speech, the Sunday Business Post published the following letter from me which suggested that "breakeven" should be a **starting point** rather than an **end goal**:

> *Much attention has focused on the larger than expected haircut on the €81 billion of bank loans going into Nama. However, this haircut amounts to a scalping for taxpayers as it means that developers will walk away from residual debts of €36 billion if Nama merely breaks even over the next decade. Accordingly, Nama's mission must be to collect as much of the haircut as possible - every unpaid billion euro is in effect a donation by taxpayers to developers' gambling debts and their*

incompetent banking pals. This means no sweetheart deals or fire sales, and maximum enforcement no matter how long it takes or difficult it proves.

I don't expect the board to pay attention to my "rants" but could it explain how the updated core objective sits with these statements by Brendan McDonagh to the Joint Committee on Finance and the Public Sector on Tuesday, 26th May 2009?

> *As regards borrowers, I want to make clear that NAMA's mandate is not to be in the business of liquidation but to achieve workout on the loans acquired over time as it can take a longer term perspective than the banks can. Borrowers will still owe NAMA the full amount they originally borrowed from the banks and there is no question of a bailout for any borrower.*
>
> and
>
> *In managing these loan and property assets, NAMA will have a commercial mandate and its aim will be to ensure that, over the ten to fifteen years of its projected lifespan, it achieves the optimal outcome in terms of the realised value of the assets that are transferred to it. The Government has stated that NAMA will have a clear and strong mandate to ensure that Irish taxpayers do not ultimately end up paying for the over-exuberant lending practices of the last decade.*

Mr McDonagh's interpretation is confirmed by the Minister for Finance speaking last Autumn at the Second Stage Reply Speech on the Nama Bill:

> *The amount a borrower owes will not change because of the transfer of a loan from his bank to NAMA. The Agency will have a statutory duty to maximise the tax payers' return and will therefore be expected to use its entire means to this end. The Bill also provides the Agency with the wide range of powers it needs to pursue borrowers and enforce security. In some cases this will mean that borrowers' personal assets will have to be assumed by NAMA. In such circumstances, I cannot understand how the misconception that NAMA will bail out developers continues to run.*

It would seem that, over the past 12 months, Nama's life span has been shortened by up to eight years and that maximum loan recovery is no longer its core objective. Why? If this is not the case, then a comprehensive statement of clarification is needed as the apparent shift in objectives creates a black hole which could vapourise over €30 billion of taxpayers' money. The only other explanation is that the revised core objective is accurate and that a kite is being flown ahead of the publication of Nama's revised business plan.

I have also been very concerned about Nama's initial business plan both for what it contains and excludes[1]. I have been particularly exercised by the presence of 10-year cashflow projections and only 3-year income projections and no projected balance sheets. This is an extraordinary omission given that it relates to a venture embracing about €80 billion of loans. To have any credibility, the next business plan must contain 10-year proforma projections, maybe scenario based to cover uncertainties, which fully disclose write offs of loans and interest. Based on the limited published data in the first plan, I undertook a detailed study[2]

[1] See http://www.planware.org/briansblog/2009/10/nama---a-flawed-business-plan.html

[2] At http://www.planware.org/briansblog/2009/10/nama---the-real-default-rate.html#more

which estimated that Nama could write off about €11 billion of rolled up interest in addition to massive loan write-offs. Here is what I said about this in a SBP letter on 2nd May last:

> *Your front page headline "Phantom funds make up to 66% of INBS income" (25th April) could just as easily refer to Nama. Buried in the financial projections of Nama's draft business plan is evidence that it expects to roll up about €5 billion of interest in its initial three years and there is no indication that any of these phantom funds or "unrealised interest" will ever be paid. Indeed, I estimate that they could amount to €11 billion over ten years to 2020 and would almost equal the projected interest actually paid by borrowers. The Nama plan is silent on this possible write off.*
>
> *It is interesting to see how the plan, issued with great flourish and used to justify Nama to the electorate and secure Eurostat approval for off-balance sheet borrowing, has been suddenly downgraded to "illustrative" before a Joint Oireachtas Committee. Nama's next plan must be far more realistic and transparent. The best approach would be to include Nama in the Freedom of Information Act to facilitate access to details of Nama's plans and operations.*

As said earlier, Nama's board may have a lot on its plate but I want it to be fully aware of the views of a taxpayer regarding the apparent dilution of its core objectives and roll-back of the original reasons for its establishment. I'm sure that I am not alone in having these concerns.

If Nama is merely planning to breakeven in cash terms then consideration should be given, even at this late stage, either to suspending its operations and introducing a better solution to manage the bad loans, or, more realistically, ensuring that its original objective to achieve the largest possible surplus in cash terms (and least loss on loans) for its taxpayer-owners is reinstated and clearly demonstrated by its plans and actions.

I have been very unsettled about Nama from the very outset - you can see this via the following link to my blog: http://www.planware.org/briansblog/banks/nama/ I will publish this letter on the blog as an open letter to Nama's board and, in the event of replies from Nama (or from other recipients), I seek permission to publish the replies there.

Yours sincerely

____

Brian Flanagan