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Commercial Property

Nama - your new bank manager

Nama is not a willing investor in existing or new projects – it just wants the money back – and developers must recognise this writes **BILL NOWLAN**

We have the final form of the legislation. We have Nama's draft business plan. The participating banks are busy with the valuation process and are on course to transfer their loans to Nama in 2010. But many borrowers and their advisors are not sure what comes next? Am I in Nama and, if so, what should I be doing?

We probably will not know all the detail of how Nama will work until the Nama board and its chief executive are appointed and decide on policy and procedures. However, we do know a lot about how it will operate.

Firstly, you will be in Nama if you have a loan from the participating banks for over €5 million unless there are exceptional circumstances. This will come as a surprise to many with property loans which they are quietly servicing on agreed terms – this may be an owner-occupied building on a simple mortgage loan or an investment.

The important thing to realise is that those who borrowed from the Nama banks now have a new banker and a new banking relationship – like it or not. Banking with Nama will generally not be a long term relationship – indeed the shorter the relationship the better for Nama and the borrower.

The second thing to realise is that Nama's prime job is to get back the €54bn given to the banks to enable it to repay the ECB. It may not be in a rush to do this, like a normal liquidator, but this will be its driving force.

Confirmation of this position is to be found in the cash flow part of the Nama business plan which shows the entire Nama €54bn debt to the ECB being repaid over 10 years at the rate of €6.5bn each year from 2013 onwards. Exiting borrowers will be coming up with that cash one way or another – by selling assets, by getting a new banker or equity subscriber, or by repaying their long term mortgage in accordance with its terms.

Developers and investors must recognise these new facts of life. The change for them is huge. Those investors/developers that understand the score and work with Nama to help it achieve its primary objective of repaying the ECB are likely to be supported. Those that don't will be losers.

Nama is not a willing investor in existing or new projects – it wants its money back. It will look at the fine print in all its loan contracts and enforce any conditions and will only advance additional money if this will expedite repayment of the entire borrowings.

How will Nama work? In its published draft business plan Nama indicates that its modus operandi will be requiring borrowers to come up with their own business plans setting out their intention for liquidating their loans in accordance with their loan agreements.

This will not be a problem if your borrowings are, say, a 25-year annuity mortgage, provided you simply comply with the term of the loan agreement and pay your interest and capital on time. But, if you have short term funding or if your loan is delinquent or you need additional capital, then do not expect your loan agreement to be quietly extended as might have happened in the past with a normal bank.

If you are now in default or likely to be at some future date, or need additional capital to complete a project, then you had better come up with a credible business plan setting out how you intend repaying your debts over time.

The fact that Nama will be borrowing funds at 1.5 per cent will give it some patience in working with viable projects. Those who don't produce convincing business plans will suffer the fate of Liam Carroll where the High Court concluded the business plans of some of his companies were not credible and appointed liquidators.

It has been argued in the media, erroneously in my view, that Nama will simply be a loan recovery vehicle rather than an asset management one. In my view it will be both.

If a loan is delinquent or due for repayment then Nama will work with the borrowers to achieve a programmed repayment arrangement – or take over possession of the underlying security.

The easy course for Nama will be to get the loan repaid by the borrower over time. However, Nama has the power of taking over the underlying asset if the court approves. If Nama takes possession, the original borrower will get a credit against his debt of the then current value of the underlying asset but will still be left with the original debt. Nama will be entitled to any uplift in the value of the property from that day onwards.

This, in my view, makes Nama very much an asset management vehicle focusing on improving the value of the underlying assets and not simply a debt recovery agency. Nama will have a big incentive to take possession of assets so as to benefit from any recovery in markets.

So my message to Nama's clients is to get their business plans into shape. These should incorporate the following: credible assumptions about the market; individual project appraisals, with options; cash flow statement showing when loans will be repaid; operational procedures to make business plans happen; sources of funding to repay Nama; and setting out how the borrower can add value.

These plans will probably need to be prepared professionally and supported by independent technical input.

The business plans should primarily focus on ways and means of repaying loans in full – not just the discounted amount paid by Nama to the banks. The hardest thing will be to source equity to complete schemes so as to make them saleable but I believe this can be done. If a borrower's business plans are not credible and soundly based, then expect Nama to take action.

I cannot see Nama being unreasonable but don't expect them to believe fairy tales about future market scenarios. Nama will have the best brains vetting each business plan. If your plan is not credible Nama has the option of taking over the asset and benefiting from any increase in property values and excluding the original borrower from those gains.

Bill Nowlan is a chartered surveyor and runs a property asset management advisory consultancy