

Press release - The National Asset Management Agency's sale of Project Eagle

The Comptroller and Auditor General's special report on an examination of the National Asset Management Agency's sale of Project Eagle has been presented to the Houses of the Oireachtas today, 14 September 2016.

The report is concerned with assessing the performance by NAMA of its functions. References to any third parties (named or otherwise) are incidental to that purpose.

Key findings

Financial outcome of the sale

- Project Eagle was NAMA's biggest loan portfolio sale to that point.
- NAMA incurred a loss on loans of its Northern Ireland debtors amounting to £640 million (€802 million). A loss of £162 million was incurred in 2014, most of which related to the Project Eagle sale. This was in addition to losses of £478 million on the loans which had already been recognised by NAMA in its financial statements through impairment charges.
- About one-eighth of the Northern Ireland debtor connection portfolio at end 2013 was disposed of during 2014 separately from, but in parallel with, Project Eagle. In addition to the impairment already recognised, NAMA incurred an average loss of 1% on those sales compared to an average of 13% on the Project Eagle portfolio.

The basis of NAMA's decision to sell its Northern Ireland debtor loans

- In December 2013, PIMCO sent NAMA an indicative offer for the Northern Ireland debtor loans of £1.1 billion to £1.3 billion.
- The NAMA executive submitted a paper about the PIMCO offer to the Board for its December 2013 meeting. This indicated that the total outstanding NAMA debt for the loans at end November 2013 was £1.98 billion.
- NAMA's cash flow analysis of the portfolio – also presented in the paper to the Board – projected that NAMA would realise net receipts of £1.68 billion if it worked out the loans through the sale of the underlying assets, mainly over the period 2014 to 2017.
- The paper submitted to the Board outlined three bases for valuing the Project Eagle loans, as at end-2013. The examination found that the application of two of the methods underestimated the value of the loans. In the third case, no valuation was made.
- Using the same discount rate of 5.5% applied by NAMA, the examination team estimated that the net present value (NPV) of the cashflows was £1.49 billion at end-2013. This represents the probable value to NAMA, as at the end of 2013, of working out the Northern Ireland debtor loans as previously planned.
- The paper to the Board pointed out that a purchaser of a non-performing loan portfolio would be likely to apply a discount of at least 10% to the value of the underlying property collateral. The paper did not provide an estimate of the current market value of the property collateral for the loans, and did not state to what value the discount should be applied, or what the outcome of such a valuation would be.
- The Board set a minimum price of £1.3 billion for the loans, as recommended in the paper to the Board. The paper did not state whether this would represent the best achievable return, or what the minimum price was based on.
- The difference between the minimum price set by the Board and the projected NPV of the loan workout (£1.49 billion) was £190 million. As a result, the decision to sell the loans as opposed to working them out involved a significant probable loss of value to the State.

- NAMA has outlined the strategic and commercial rationale underpinning the decision to sell the Northern Ireland loan portfolio. The report draws no conclusions about the merits of that decision.

The Project Eagle loan sale process

- NAMA's policy for loan sales is to undertake them by way of an open, competitive process with the objective of maximising the sale price. The policy and related guidelines are consistent with the standard market approach for the sale of loan portfolios which, if implemented, should provide reasonable assurance that the best price currently achievable in the market is obtained.
- In September 2013, PIMCO proposed a 'short and exclusive' process for the sale of the Northern Ireland debtor portfolio i.e. no competition from other bidders. The Board agreed in October 2013 to consider a possible disposal on the basis that there would be an open market process, in line with NAMA's loan sale policy.
- The NAMA executive set up a virtual data room, containing information about the top 55 property assets, representing about 60% of the value of the portfolio. This allowed PIMCO to commence 'due diligence' examination of the loans in November 2013, and to prepare its indicative bid.
- A NAMA paper for a special Board meeting on 8 January 2014 proposed very restricted marketing of the loans. It proposed the immediate appointment of Lazard and Company Ltd as loan sale advisors, to carry out marketing of the portfolio to a minimum of two selected firms (other than PIMCO). The proposed process was to be completed by the end of January 2014.
- The Board agreed to appoint Lazard. NAMA specified the key aspects of the marketing strategy, and aimed to ensure that the planned loan sale would remain highly confidential.
- An initial group of three investment firms approached by Lazard yielded only one interested firm. Subsequently, three other firms were invited to participate, and two entered the process. Following media reporting in mid-February 2014 that a sale was under way, two other firms (out of ten that applied) were admitted to the process.
- Firms that declined to participate, or that subsequently withdrew, cited dissatisfaction with the time allowed for the sale process and with the level of information available, and prior commitments to other sales already taking place or planned. One firm cited the competitive advantage PIMCO had because of its early engagement with NAMA.
- By final bid stage, NAMA had made available in the data room around 2,800 documents relating to around 850 properties. In contrast, NAMA made available around 22,000 documents for 1,900 property assets when it sold the Project Arrow portfolio of loans.
- NAMA also imposed restrictions preventing potential bidders contacting the Northern Ireland debtors, or availing of the services of valuers in Northern Ireland. Some of the firms that declined to enter the sale process cited the difficulty they would have in carrying out due diligence on the portfolio without such third party assistance.
- Just prior to the submission of bids, NAMA reduced the minimum price to £1.23 billion to reflect asset sales completed during the loan sale process. Ultimately, NAMA received two bids on 1 April 2014. Cerberus bid £1.241 billion and Fortress bid £1.075 billion. Lazard recommended the Cerberus bid be accepted.
- Lazard provided an assurance statement that the 'sell-side' process for the transaction was appropriate, having regard to the information available to it (Lazard) at the time, and NAMA's objectives for the sale. Lazard expressly provided no opinion about the underlying NAMA decision to dispose of the portfolio, and did not address the relative merits of the

Project Eagle sale as compared to alternative transactions, timing or strategies for the sale that might have been available to NAMA.

- The examination found that restrictions on the Project Eagle sale process combined with the limited scope of Lazard's assurance statement do not provide sufficient assurance that a different marketing strategy for the loans, or different timing of the sale, could not have resulted in NAMA achieving a higher price.

Management of conflicts of interest

- The report makes no findings in relation to the actions of individuals or third parties.
- Mr Frank Cushnahan declared his involvement as an advisor to six NAMA debtors, mainly on a non-fee basis, whose loans represented about half the value of the Northern Ireland loan book. The NAMA Board should have formally considered whether Mr Cushnahan's engagement in discussion of the Northern Ireland strategy was consistent with his ongoing involvement as financial advisor to a significant proportion of the debtors.
- Over a series of contacts with PIMCO between 10 and 12 March 2014, NAMA learned of the existence of an alleged success fee arrangement involving Brown Rudnick, the managing partner of Tughans and Mr Cushnahan, and that the potential payment was in the amount of £15 million to £16 million, to be shared equally. PIMCO withdrew from the process when NAMA told them that the potential payment to Mr Cushnahan was a significant issue for them. NAMA considers that the integrity of the process was preserved by PIMCO's withdrawal.
- NAMA subsequently learned of the existence of a success fee arrangement involving Cerberus, on the one hand, and Brown Rudnick and Tughans on the other. NAMA sought and relied on an assurance from Cerberus that no fee or payment was payable to anyone connected with NAMA. NAMA only learned of Brown Rudnick's engagement with Cerberus on 2 April 2014, and do not appear to have asked Cerberus when it engaged Brown Rudnick, or what was the precise nature of the services Brown Rudnick and Tughans were providing.
- The allegations of Mr Cushnahan's involvement in a fee-sharing arrangement warranted more action by NAMA when the matter came to light, such as seeking advice from the National Treasury Management Agency compliance unit, or writing to Mr Cushnahan to seek confirmation or an explanation.
- NAMA did not brief Lazard on the disclosures, and did not ask for Lazard's assessment of the potential implications for the integrity of the sale process.

Notes for Editors

[\[Summary of the report\]](#)

[\[Full text of the report\]](#)

Relevant extracts from Board minutes and papers presented to the Board by the NAMA executive are set out in appendices to the report.

The loans of the Northern Ireland debtors were mainly denominated in sterling and Project Eagle was transacted in sterling. That is the currency used in most instances throughout the report.

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