

ULI Annual European Conference- 2010

“Government to the rescue- Dream or Nightmare?”

A snapshot of the situation in the UK and Ireland

3rd February 2010

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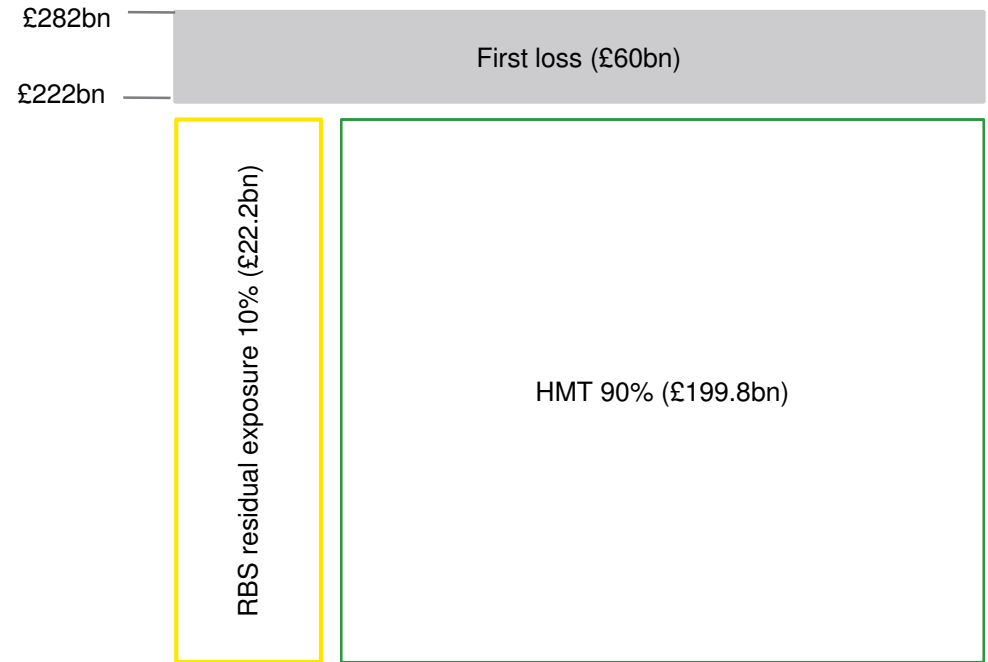
UK insurance scheme – APS

A. Timetable

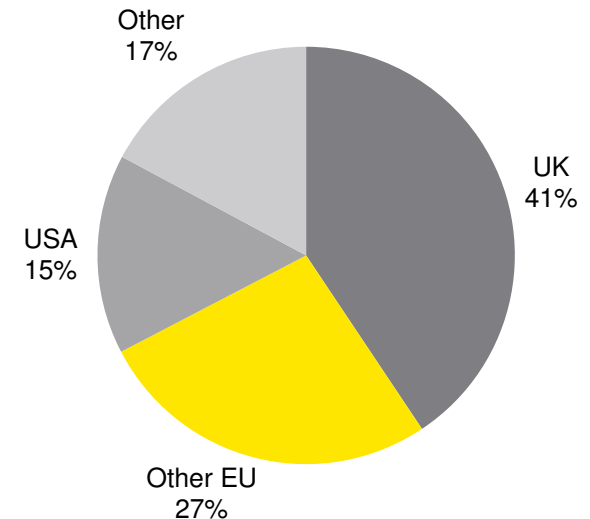
- ▶ Announced in January 2009.
- ▶ LBG withdrew in November 2009.
- ▶ RBS signed legally binding agreement on 26th November 09 under revised terms to cover £282bn.

B. Structuring

- ▶ All assets to remain on RBS's balance sheet.
- ▶ First £60bn loss borne by the bank.
- ▶ Upfront fee of £6.5bn (taken as capital) and an annual fee of £700m for first 3 years, £500m thereafter.
- ▶ Of the £282bn of RBS insured assets, at least £75.5bn relate to Real Estate including Residential Mortgages (c.£15bn) and Commercial Real Estate Finance (c.£60bn).
- ▶ Other characteristics include:
 - ▶ Capital injection by government;
 - ▶ An exit fee on withdrawal of scheme;
 - ▶ Lending commitments; and
 - ▶ Disposal of non core assets.



Location of Obligor- covered assets (%)

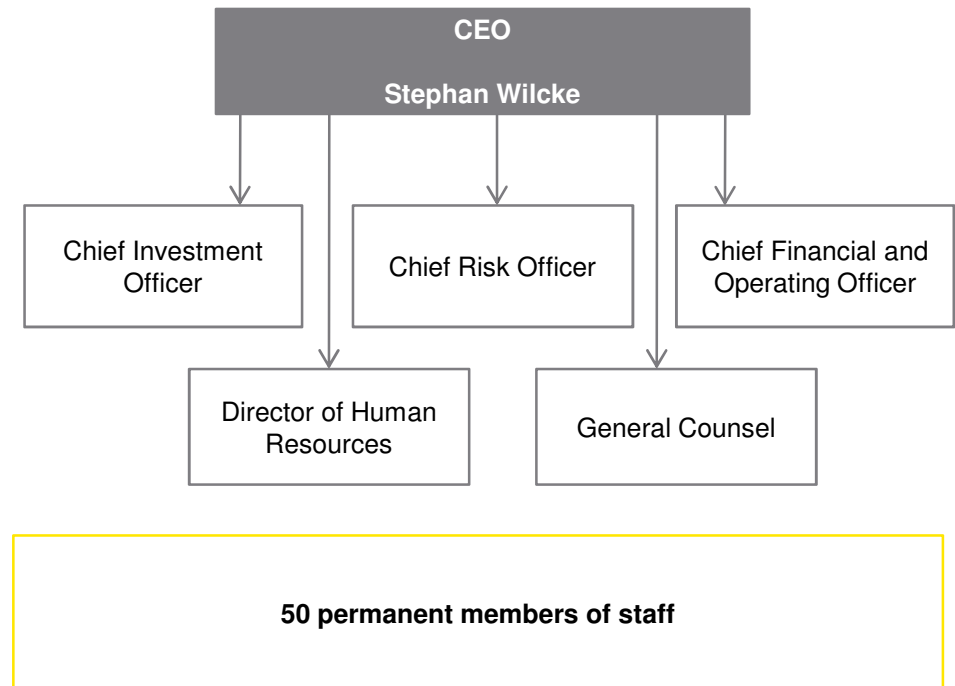


UK insurance scheme – APS

C. Operation

- ▶ Asset Protection Agency (“APA”) was launched in December 2009
- ▶ Set up to monitor performance of the APS
- ▶ Provides additional oversight on covered loans
- ▶ Operates at arms length. Decisions made on commercial basis with a view to maximising recovery of covered loans.

APA structure



Irish Asset Purchase Scheme- NAMA

A. Timetable

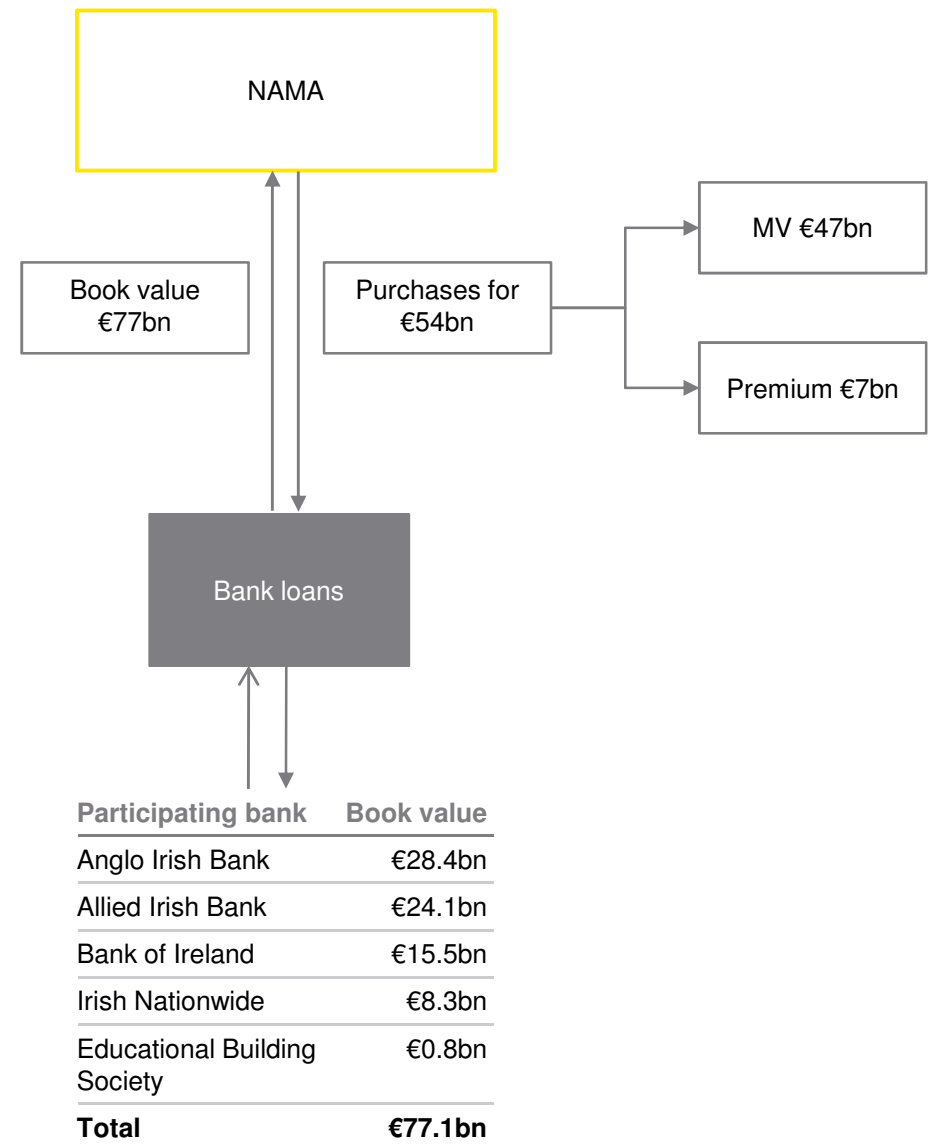
- ▶ Initially announced in September 2008
- ▶ Details of the structure are still to be worked out
- ▶ Focused on the largest borrowers in the Irish real estate market
- ▶ Focused on land and development loans and ‘associated’ loans

B. Structuring

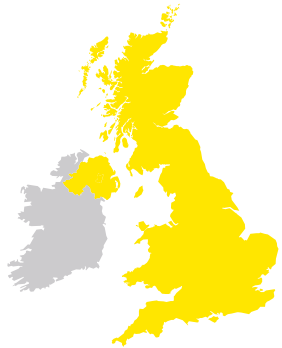
- ▶ Five financial institutions participating
- ▶ NAMA expects to acquire loans with a book value of €77bn and pay €54bn
- ▶ Valuation based on Open Market Value of collateral plus an adjustment for “Long Term Economic Value”
- ▶ Purchase of loans will be through issuance of Government securities and 5% of NAMA sub-debt

C. Operation

- ▶ Largest loans are expected to be managed by NAMA directly
- ▶ NAMA will be headed by a board of 7 members and c.75 members of staff, although there is still uncertainty over ongoing management of loans
- ▶ Institutions will have to accept NAMA’s valuation and will be subject to additional regulatory restrictions and oversight .



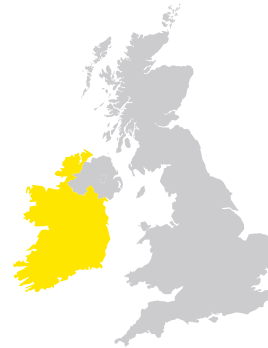
Impact of schemes on the Real Estate Market



- ▶ Estimated £75bn of real estate assets covered
- ▶ DD efforts took a lot of resources from RBS, LBG and HMT
- ▶ APA adds additional layer of oversight into the restructuring of loans
- ▶ Right of APA to take control of managing loans in certain circumstances
- ▶ Disposal of non core assets

Other Government intervention to consider

- ▶ Reversal of Quantitative Easing and wider monetary policy



- ▶ Estimated €77bn of real estate assets covered
- ▶ The valuation of loans is likely to be a key theme until transfer is complete
- ▶ Banks refraining from dealing with problem loans until loans transferred to NAMA
- ▶ NAMA's attitude towards work out and value recovery will be key

Other Government intervention to consider

- ▶ Need for further capital injection into participating banks
- ▶ Merger/restructuring of some institutions?

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