Ireland’s “bad bank” becomes a €90 billion property speculator

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Draft legislation on Ireland’s so called “bad bank”, the National Assets Management Agency (NAMA), makes clear that it is a vast property gamble to be paid for by the working class.

The new agency will be created as a state-supervised repository for toxic loans built up by leading Irish banks during the property boom. It will take control of assets with a book value of at least €90 billion, but whose current value is a fraction of that sum.

Some 10,000 loans will be handed over to NAMA from Ireland’s leading banks. The loans are split evenly between projects based on undeveloped land, partially completed development projects and completed properties. Two thirds of the projects are in Ireland, the rest mostly in Britain. Some €25 billion is tied up in projects in London and the South East of England, including sites related to the 2012 Olympic Games; €40 billion of loans are with just 100 developers, many of whom will be close to the government Fianna Fail party.

Allied Irish Banks (AIB), Bank of Ireland, Anglo Irish, Irish Nationwide, and EBS are likely to participate. NAMA will take over the loans and compensate the banks to the full value of the loans, less an as yet undefined discount. When cashed in at the European Central Bank, the bonds will allow tens of billions of euros to be pumped, at taxpayers’ expense, into the paralysed and near bankrupt banking institutions whose reckless lending contributed to the property bubble in the first place. On the basis of the NAMA proposals, both AIB and Bank of Ireland shares have soared.

The difference between the “long term economic value” of the loans, based on repayments running smoothly, and what the government is likely to pay has come to be known as the “haircut.” Given the immense sums involved, this is hugely contentious and the draft legislation does not include a figure.

Commentary suggests, however, that the “haircut” will be set somewhere between 20 percent and 30 percent. Others have suggested that the figure will be set by a calculation on how much the banks can afford to lose while staying as private companies. Anglo Irish has already been nationalised.

Were this to be the final figure, it would mean between €63 billion and €72 billion would be handed over for assets whose current value is much less. Some estimates suggest that the state is likely to be left with a tab for at least €20 billion.

To put this figure in context, last month some €5.3 billion worth of annual cuts were floated in a report prepared by economist Colm McCarthy. The report outlined proposed cuts of 17,000 civil service jobs, 6,000 health service positions, along with a 5 percent cut in welfare payments and a 20 percent cut in child benefit.

The plan, concocted by leading economists and implemented by Finance Minister Brian Lenihan, is being sold based on the possibility of a long-term recovery in the property market to something approaching pre-collapse prices, allowing NAMA to recoup some of the cash invested by taxpayers.

While most of the agencies’ assets are expected to be sold off in seven to ten years, some assets will take up to thirty years to untangle and sell on. British officials are said to have sought reassurances from the Irish government that NAMA’s assets will not be sold off quickly—a move that could precipitate a further property crash in Ireland and Britain.

NAMA is effectively an immense property gamble with little chance of paying off, as the world's property markets enter deeper into slump.

While the immediate and long-term beneficiaries will be the banks and Ireland's financial elite, the stake is being put up by working people in the form of devastating cuts in social spending being prepared by the Irish government.

Following the loss of Ireland's competitive advantage as a manufacturing base over the last decade, a boom economy was sustained on the basis of speculative property investments. Many projects were office blocks, hotels, marinas and the like aimed at servicing Ireland's rapidly expanding financial services industry.

The same low-tax, low-regulation environment that once made the Celtic Tiger attractive to US manufacturers seeking to export to the European Union has also, in the last decade, made the country a preferred global location for the hedge fund industry. Ireland offers hedge funds the advantage of the respectability of EU membership but with a regulatory environment little different from its major competitors, the Cayman Isles and Saudi Arabia.

As of early 2008, according to *Hedgeweek*, some 10,322 hedge funds and sub-funds were administered from Ireland, with total assets of a staggering €1.618 trillion. Some 25,000 people are employed by the funds, mostly in Dublin.

While the property-based speculative bubble has burst spectacularly with calamitous consequences for Ireland's banks, to date Irish based hedge funds have not faced a similar catastrophe. In 2009, total Irish administered assets, based in 10,704 funds, were still worth €1.353 trillion, having lost €265 billion in value, a proportionally small loss compared to banks whose share values have plummeted over 90 percent. Employment in the sector has actually gone up over the last year.

These cash sums dwarf the not insignificant amounts tied up in the NAMA transactions, and represent a further turn by the Irish financial aristocracy to the most dangerous forms of financial parasitism. It is revealing that 42 cases arising out of the collapse of Bernard Madoff's multi-billion "ponzi" swindle are due to come up in front of Irish courts.

The growth of Ireland as a base for hedge funds also explains the €400 billion guarantee offered by the Irish government on all bank deposits at the height of the financial crisis. Again with taxpayers footing the bill, the guarantee was primarily offered to large numbers of international investors.

Part of the NAMA legislation allows the finance minister unprecedented powers to purchase property, and to raise up to €10 billion of new funding. The legislation also allows the finance minister and the Irish Central Bank to force the merger or re-organisation of any of the participating institutions where "restructuring of credit institutions [is] of systemic importance to the economy."

Underlying this proposal are concerns that the spectacular collapse of the now nationalised Anglo-Irish Bank, and the incestuous relations revealed between leading government, financial and property developers, threatened to drive funds away from Ireland.

Fianna Fail's Green Party coalition partners have fully supported NAMA. Senator Dan Boyle claimed that NAMA was the "least worst option." The Greens are also pushing for more powers to pursue recalcitrant property developers, while calling for banks working with NAMA to be offered additional bonuses.