

NAMA: How borrowers should engage

“Business plans will play a key part in NAMA’s decision making process.”

2010 will see NAMA taking over €77 billion worth of loans (including performing and non-performing) from the participating Irish banking institutions. The largest 100 borrowers (circa 50% of the portfolio) will be intensively managed by NAMA. While all credit decisions will be made by NAMA the relationship management and loan administration of the other borrowers (circa 1,500) will be carried out by the participating institutions within NAMA parameters. NAMA will expect borrowers to engage and prepare a detailed business plan. The quality of a borrower’s business plan will have a major bearing on NAMA’s decision making process.

Timeline

It is envisaged that the transfer of loans to NAMA will proceed as follows:

- transfer of the initial largest borrower exposures across all institutions during February/March 2010; and
- phased transfer of remaining borrowers with target of the end of the third quarter of 2010 for completion.

Cooperation between borrowers and NAMA

NAMA has expressly stated that if an agreement cannot be reached with a borrower, or a borrower does not cooperate, NAMA will take enforcement action.

NAMA has stated that every borrower will have an opportunity to present an updated business case to make a pitch for survival.

What loans will be transferred

Eligible land and development loans will be transferred, i.e. the eligible loans secured on development land and property under development. In addition, the larger property-backed loans of the banks in the scheme will be transferred.

Loans with a value of less than €5 million will not transfer (except in the case of the building society loans), and loans obtained following 31 December 2008 will also be excluded.

Importance of business plans

A NAMA business plan will need to set out:

- the borrower’s current financial position;
- level of indebtedness to non-NAMA institutions;
- a full list of assets and liabilities;
- short, medium and long term objectives;
- a list, in order of priority, of assets to be disposed of and assets which require additional investment;
- information on individual projects;
- estimate of where the borrower expects property prices to be going forward; and
- cashflow forecasts for the next 3 years.

Preparation of business plans

The contents of the business plan submitted will therefore have a significant influence on how NAMA will proceed to manage the loans of each borrower. Business plans will need to be prepared diligently, adequately meeting the information requirements of NAMA and where appropriate competently demonstrating the ongoing viability of a project.

The fundamental steps in the preparation of a business plan are discussed below:

Revenue

Borrowers will need to consider how best to maximise the value of their assets. Revenue projections should show:

- the price and timing of anticipated asset sales;
- rental income from unsold assets; and
- cash which can be realised from investments or other sources.

Appropriate sensitivity analysis should be included, highlighting the key areas of risk. The sensitivity analysis should outline best and worst case scenarios, and demonstrate the impact of these scenarios on the business.

Costs

Consideration should be given to:

- the required costs to project completion, including any outstanding or potential tax liabilities;
- costs required to preserve value on sites, such as insurance, security, etc; and
- any cost cutting programme in place.

Cash flows

Cash flows need to be prepared on an integrated basis with a profit and loss account and balance sheet to ensure cash movements are appropriately reflected.

Short and long term debt and facility repayments

The business plan should set out:

- if further funding is required, and where value can be generated through the provision of this funding;
- the identification of the interest and capital repayments to NAMA;
- the impact of debt repayment under the appropriate sensitivities; and
- an analysis of headroom available.

How Grant Thornton can help you

Grant Thornton's debt advisory team can assist borrowers in their dealings with their banks and with NAMA. Our services include:

- short reviews for clients concerned with their financing arrangements;
- the preparation or review of business plans for NAMA;
- the preparation or review of financial projections;
- covenant reviews and negotiations;
- reviewing working capital cycles and making recommendations to reduce the working capital requirements; and
- advising on strategic options.

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