



# **NAMA POLICY PROPOSAL**

**What we propose:** There is an incongruity at present in that large numbers of properties exist for which there are no buyers at the same time that large numbers of households are unable to access housing. MLRC proposes that NAMA could be the conduit through which government spending on social housing is channelled towards the purchase of NAMA properties.

### Executive Summary

- The establishment of NAMA takes place in the context of a property market which has collapsed.
- Some €80-90 billion is owed to banks in property-related loans and there are no buyers in the current market for this sum.
- This has resulted in a sharp increase in the number of empty housing units.
- At the same time, the number of households unable to access housing and in need of accommodation or other assistance from the State has also sharply increased.
- There has been a corresponding increase in government spending on social housing, rent allowance, emergency accommodation and similar measures to provide assistance.
- In an effort to bridge the gap between properties for which there are no buyers and households which are unable to access housing, NAMA could be the conduit through which arrangements are made to channel government spending on housing towards the purchasing of NAMA properties.

This could be done by:

1. allowing persons in receipt of Rent Allowance to use that money to take out a mortgage on a suitable NAMA property while banks are encouraged to make loans available as deposits
  2. local authorities negotiating phased buyouts (e.g. over 20 years) of suitable NAMA properties which would then be made available at local authority rents to persons in need of housing.
- This would provide housing for those in need (who would have to be assisted in any event) and it would yield an income for developers to repay their loans.
  - In these circumstances, a broader and more creative understanding of how “value” is determined for the purposes of NAMA offers the possibility of a win-win situation: NAMA loans are repaid, developers avoid bankruptcy, the homeless receive a social dividend and the overall purpose of NAMA is served.

### Purpose of NAMA

1. In response to the current banking and economic crisis, the Government proposes to set up an independent body, the National Asset Management Agency (NAMA), to take over and manage impaired loan assets with a view to resolving the crisis and protecting the overall longterm economic interests of the State (and ultimately the taxpayers).<sup>1</sup>

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<sup>1</sup> Sections 2, 10 of the National Asset Management Agency Bill 2009.

2. The intervention is prompted by the recent collapse of the property market and the threat posed to the Irish banking system by the resulting impairment of outstanding loans to property investors and developers. It takes place in the context of a property boom which has gone bust, leaving some €80-90 billion owed to banks in property-related loans.<sup>2</sup> In the current market, there are no buyers for the properties represented by this sum. If, as seems inevitable, there is default on these loans, Irish banks will be exposed to an €80-90 billion loss which they are probably not able to absorb. Damage thus inflicted on our banking system would have knock-on consequences for the State's credit rating and its ability to borrow to meet the day to day needs of running the country.
3. What the NAMA proposal entails is the purchase by NAMA of impaired loan assets from the banks at a price which allows the losses faced by the banks to be both certain and sustainable. It is hoped that the threat to the Irish banks will thus be removed and stability restored to the banking system.
4. NAMA will then be left to manage and control the impaired loan assets which are largely comprised by land and buildings (both completed and in development) which cannot be sold in the current market. As the debt incurred by the State (and taxpayers) to fund this intervention will be enormous, it is of the utmost importance that the management of these assets by NAMA will result in economic benefit to the State.

### **Incongruities**

5. An economic and financial analysis of the NAMA proposal must be left to those properly qualified in this area. However, the proposal takes place in the context of a number of highly ironic incongruities which need to be brought to the Government's attention.
6. Firstly, it should be noted that the property boom and its collapse did not take place in a vacuum. Property development was highly incentivized by Government tax policies, especially urban renewal schemes, resulting in €1.9 billion foregone in tax as of July 2006.<sup>3</sup> Housing became a commodity for investment and the object of market speculation. Prices were driven upwards in an unnatural spiral bearing little relation to the real costs of production and still less to the actual cost of living. Thus while building costs rose by 82% between 1995 and 2006 and the cost of living rose by 50%, the price of new houses rose by 344-408%.<sup>4</sup> Despite unprecedented increases in housing output, the price of new houses continued to rise, deviating from the law of supply and demand. As prices continued to rise, personal and household

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<sup>2</sup> Peter Bacon, *Evaluation of Options for Resolving Property Loan Impairments and Associated Capital Adequacy of Proposal for a National Asset Management Agency (NAMA)*, National Treasury Management Agency, 8 April 2009

<sup>3</sup> According to the report by Goodbody Economic Consultants (2005) cited in Jesuit Centre for Faith & Justice, *The Irish Housing System: Vision, Values, Reality*, (2009), 16.

<sup>4</sup> Jesuit Centre for Faith & Justice, *The Irish Housing System: Vision, Values, Reality* (2009) 9-10.

indebtedness increased as banks relaxed their lending practices and consumers took on a level of indebtedness beyond their ability to repay.<sup>5</sup> The bubble became increasingly fragile.

7. At the same time, as property investment and housing production bore less and less relation to real housing needs and consumer resources, the number of empty houses began to grow. By 2006, 249,348 new houses (42% of the total; 52% in Dublin) were held as investments rather than lived in.<sup>6</sup> In the same year, the national census found that 12% of the housing stock in Dublin was vacant. In 2008, IAVA estimated that approximately 40,000 apartments in Dublin were empty. Just as the price of housing was divorced from reality, however, so the increase in empty housing units bore little relation to the reality of housing needs.
  - By 2008, the number of households on the waiting lists for local authority housing had grown to 56,249, an increase of 33% from 2005.<sup>7</sup> Of the 56,249 households, 49% had been waiting for more than two years. As noted by the Irish Council for Social Housing, this number is likely to rise due to unemployment, home repossessions, etc.<sup>8</sup>
  - Similarly, the number of recipients of Supplementary Rent Allowance was 74,038 in 2008, an increase of 24% from 2007. Of these, 42% had been receiving Rent Allowance for more than a year and 62% had been receiving it for more than 6 months.<sup>9</sup> A further 18,000 households (who had been longterm recipients of Rent Allowance) had been transferred to the Rental Accommodation Scheme (RAS).<sup>10</sup> Again, these numbers can be expected to rise. It is reported that 1,000 new applications for Rent Allowance are being made every month.<sup>11</sup>
  - Finally, it is estimated by Focus Point that the number of people who were homeless nationally had doubled from 1996 to over 5,000 despite a brief decline in 2005.<sup>12</sup> In Dublin, the figure was 2,366 of whom 59% were in emergency accommodation.<sup>13</sup> Again, the figures are likely to rise.
8. It is not clear to what extent there is overlap between these different groups but what is emphatically clear is that, at a time when large numbers of housing units were lying empty, increasing numbers of households were either unable to access accommodation or were unable to do so at a price they could afford and this inability in most cases was persistent and chronic.

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<sup>5</sup> Ibid., 11. Consumers' average earnings between 1995 and 2006 increased by only 70% compared to the 344-408% increase in the price of new houses.

<sup>6</sup> Tenants First, *Housing for Need not Greed* (2009) 15.

<sup>7</sup> Dept of Environment, Heritage & Local Government, *Annual Housing Statistics Bulletin*, 2008.

<sup>8</sup> Irish Council for Social Housing, *Briefing Paper on Proposals for National Asset Management Agency* (2009)

<sup>9</sup> Dept of Social & Family Affairs, *Social Welfare Services Statistical Information Report 2007*.

<sup>10</sup> Dept of Environment, Heritage & Local Government, *Annual Housing Statistics Bulletin*, 2008.

<sup>11</sup> Tenants First, *Housing for Need not Greed* (2009) 10.

<sup>12</sup> Ibid., 9.

<sup>13</sup> Counted In Survey (2008) cited at Homeless Agency, *Pathway to Home*, 10.

As with the problem of food during the Famine, the problem was not shortage of housing; the problem was gaining access to the housing that was there.

9. What is also becoming clear is that large sums of money are expended every year on the provision of accommodation to those who are unable to access it themselves without making any progress in reducing the numbers of those in need. Annual spending on Rent Allowance has increased from €7.8m in 1989 to €440.8 m in 2008. A third of this phenomenal 5,000%+ increase is due to the increase in numbers receiving Rent Allowance. Two thirds however is due to increased rents.<sup>14</sup> €45m was spent on accommodation for people in homelessness in 2008, of which upwards of €20m was spent on B&B accommodation despite its unsatisfactory nature for families in particular.<sup>15</sup> Similarly, the use of the private rented sector to house people in receipt of Rent Allowance has proven unsatisfactory because the accommodation frequently fails to meet minimum standards and lacks security of tenure.<sup>16</sup> Government policy of contracting out provision of social housing to the private sector therefore represents poor value for money: the quality of accommodation is poor and inappropriate and expenditure is ongoing without progress being made.

### Possibilities

10. The question is whether there is opportunity within the NAMA proposal to address some of these incongruities. Clearly NAMA's brief will be to obtain the best achievable financial return for the State. What needs to be considered is whether, in the case of at least some of the impaired loan assets, the best return for the State might lie in trying to bridge the gap between properties for which there are no buyers and persons/households unable to access housing.
11. With the taking of certain steps by the Government, the bridging of this gap is possible. What the Government requires to do is the following:
- **Allow** persons in receipt of Rent Allowance to use that money to take out a mortgage on a suitable NAMA property.
  - **Direct** banks to make loans available as deposits to such buyers.
  - **Broaden** the relief available to recipients of Mortgage Interest Relief Supplement so that they are entitled to use that money to pay off capital as well as interest.
  - **Encourage** local authorities to negotiate phased buyouts (e.g. over 20 years) of suitable NAMA properties and then make them available at local authority rents to persons currently in need of housing support. (Such buyouts could be financed by sums currently allocated to Rent Allowance, RAS, proposed

<sup>14</sup> Jesuit Centre for Faith & Justice, *The Irish Housing System: Vision, Values, Reality*, 19.

<sup>15</sup> Homeless Agency, *Pathway to Home*, 12.

<sup>16</sup> Jesuit Centre for Faith & Justice, *The Irish Housing System: Vision, Values, Reality*, 19; Tenants First, *Housing for Need not Greed*, 12.

longterm leasing arrangements and local authority capital expenditure which in 2008 was 1.45 billion.)

- **Initiate** a temporary job creation scheme in the construction sector which would enable existing 'ghost' developments to be completed on condition that, if they are not purchased under the schemes above, a certain number of completed units will be made available for social and affordable housing.
12. As such solutions would result in savings to the State in the longterm, NAMA with its brief of looking after the longterm economic interests of the State and the taxpayers could encourage developers to work out such arrangements, perhaps incentivizing them by providing for an appropriate discount. In any case, obvious benefits ensue to developers if buyers, phased or otherwise, can be found for properties which at present cannot be sold. Creativity and flexibility will be needed to work out arrangements of this kind but it seems important that NAMA should at least be open to investigating such possibilities. Not only do they have potential to contribute towards solving the financial impasse; they also make some movement towards redressing the deep inequities within our housing system.
  13. Care will also need to be taken to ensure that properties selected for this scheme are suitable and to avoid the danger of ghettoisation or housing people in developments that are not conducive to family and community-building. Effective consultation with organizations working with people in need of housing will be required.
  14. It is submitted that a solution along these lines would be in accordance with NAMA's purpose and functions as proposed in the draft legislation. However, to ensure that its brief could be exercised in this way, it might be advisable to include use of property for social housing/housing of persons in need and consequent savings to the State as one of the factors to which NAMA may have regard under S.81. Alternatively, the Minister could issue guidelines to this effect under S.13/14. It would also be necessary to prescribe the manner in which proposals for such use can be made and by whom.