

Dáil Éireann debate - Wednesday, 16 Sep 2009

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National Asset Management Agency Bill 2009: Second Stage.

- [Back to table of contents](#)

[Minister for Finance \(Deputy Brian Lenihan\)](#)

I move: "That the Bill be now read a Second Time."

[Deputy Joan Burton](#)

We are opposing the reading of this Bill at this Stage because we believe we have put forward a better proposal, which will safeguard the interests of the taxpayer and will cost nothing like the proposals being made today by the Minister, Deputy Brian Lenihan, which will probably cost approximately €55 billion.

[An Ceann Comhairle](#)

That vote will take place at the end of the debate.

[Deputy Brian Lenihan](#)

My speech is being circulated, along with an information pack of supplementary documentation that I have made available to the Deputies. In the history of this State, few subjects have been debated more intensively and more passionately than the Government's proposal to establish a National Asset Management Agency. Since I published the draft legislation on 30 July last, there has been a fast and furious debate on the airwaves, in the print media, on websites, at public gatherings, at a lengthy Oireachtas joint committee meeting two weeks ago and, I am sure, in many households throughout the country. This is as it should be. It is impossible to overstate the fundamental importance of the resolution of our banking crisis to our economic recovery. A clear understanding of why our banking system got into this crisis is of the utmost importance. We must learn lessons from this crisis. We must and will take the necessary steps to ensure we never make the same mistakes again. I accept the good intentions of most contributors to the debate. Some of the commentary was ill-informed and some of it, from those who should know better, was mischievous. Many constructive suggestions and amendments have been proposed, however, and the Government has taken on board the best of them. I emphasise that I am open to further constructive amendments from Members of this House which will improve the Bill and protect the citizens of the State.

Much of the debate has centred on the risk involved in NAMA. I wish to make it clear that the resolution of the banks' difficulties involves risk the private sector will not take. That is why the Government, like governments throughout the world, has had to step in. Another risk that has been less prominent in the debate is the risk to the taxpayer of paralysis and delay. If we do not act now to free our banks of their higher risk loans, we will not be in a position to benefit from the economic recovery that appears to be emerging in the United States and in Europe. Without a healthy and functioning banking system, our businesses and service providers will not be able to grow and develop their products for our main markets. If we do not

stand ready to take advantage of a global upturn, as an open free market economy dependent on foreign direct investment and international capital flows, we will lose market share and jobs. That is the very real risk confronting our economy. As the time for debate comes to an end, the Government has a duty to act. Our proposal to establish an asset management agency has received the endorsement of the International Monetary Fund and the European Central Bank. It is clear that our proposal enjoys credibility in the financial markets. Since it was announced, the cost of borrowing by the State has fallen by 1.5% for ten-year money, which is tangible evidence that the Government's strategy is working. I note that NAMA has received the endorsement of two of my distinguished predecessors, Mr. Ray MacSharry and Mr. Alan Dukes, both of whom sat at the desk I currently occupy at another period of great peril for this country's economy. In light of their record of service during difficult periods, their assessment is deserving of our respect. The citizens of this country are understandably angry about the state of the banks, bitterly disappointed by the failure of our regulatory system and appalled by the details of the reprehensible behaviour of people in the financial and property sectors, in whom they placed their trust.

Deputy Damien English

Is the Minister angry about that?

Deputy Brian Lenihan

They are also angry with the Government. Many of them have asked why we are putting money into the banks while they endure the brunt of the difficult budgetary decisions we needed to take. It is unfortunate that there has been a breakdown of trust in the entire banking system, but the public knows we need the banks. People understand that we cannot have economic recovery unless we fix our banking system. It is not just a question of bank guarantees, recapitalisation and asset management solutions for impaired assets. It is a

question of something much more fundamental and tangible. People need to be reassured that their deposits are safe. They need to believe that senior management and directors in the banks are responsible, trustworthy and accountable for their actions. This will not happen overnight. It will require much hard work on the part of all of us. We must overcome our understandable anger and get on with the business of reform. The Government is determined to refashion the financial and banking system and to address and correct all regulatory and governance shortcomings. We will give clear direction to the banks about what is expected of them. As I stand here today on behalf of the people of Ireland, I wish to make it clear that the banks should be extremely grateful for the continued support and forbearance extended by the citizens.

Deputy Caoimhghín Ó Caoláin

They are not showing any gratitude.

Deputy Brian Lenihan

In return, the Government expects the banks to play more than their part in the economic recovery of the State by providing appropriate risk adjusted credit to businesses, so they can protect and create jobs. Our citizens deserve nothing less. The Bill before the House today has been drawn up on the basis of the expert advice and counsel available to the Government from the National Treasury Management Agency, the Financial Regulator, the Central Bank and our financial and legal advisers.

Deputy Damien English

All the guys who got us into it in the first place.

Deputy Brian Lenihan

Everything we do must and will be done in accordance with EU state aid rules. This Bill is the centrepiece of the Government's plan to resolve the problems that have beset our financial and credit system. Before I deal with the details of how NAMA will work, I will set out the context in which the decision to establish the agency was taken. Just under a year ago, the banks in this country were on the brink of financial collapse. The well-being of our nation and our people was under threat. The State guarantee, which was introduced overnight on 29 September 2008, pulled us back from the brink. As a result, our banks and financial institutions were again able to raise from international markets the funds they needed to ensure their customers – big or small, young or old – could go about their daily business in the knowledge that their deposits were secure. In the year and, especially, the months before the guarantee, our banks were squeezed by the severe correction and withdrawal of funding that took place in the international markets. This correction followed a period of unsustainable cheap credit and inadequate regulation of the global banking system. The failure of the Lehman Brothers international investment bank and the decline in other global financial institutions further exacerbated the position. Smaller and more open economies like the Irish economy were particularly badly affected.

Having moved away from more traditional forms of funding, with balance sheets expanding by more than 100% in a few short years, Irish banks availed more than most of cheap credit. They borrowed in the short term to fund long-term assets and extensive property-based lending. When this cheap credit dried up overnight, the Government, like most governments in the developed world, had to step in. As other countries followed our example in the use of guarantees, funding conditions became extremely difficult for Irish banks and building societies once more. Large levels of speculative property lending left the banks exposed to a property market that had passed the peak of its cycle. The property industry shuddered to a halt. Sales of houses and other property stopped and repayments of interest and capital could not be met by borrowers. International providers of funding and capital

recognised the risks, cut credit lines and, in some cases, stopped dealing with financial institutions. In this weakened state, our banks started to hoard capital to protect themselves. Stress on their capital and funding positions damaged their ability to provide an essential flow of new and existing lending to the economy. To address this problem and to further stabilise the system, the Government moved to recapitalise AIB and Bank of Ireland. As details of the shameful behaviour of some senior executives in Anglo Irish Bank began to emerge, that bank was taken into State ownership to prevent it from destabilising the rest of the banking system and the economy. As we know, these events are the subject of a number of investigations, which I hope will conclude sooner rather than later. It suffices to say that the damage done by certain individuals to the reputation of this country will take some time and much hard work to repair.

Deputy Finian McGrath

Hear, hear.

Deputy Brian Lenihan

Throughout the last year, Ireland's membership of the EU, particularly the eurozone, has played a vital role in our response to the current financial crisis. When we vote in the referendum on the Lisbon treaty on 2 October next, I hope no one forgets that the European Central Bank stood behind this country during its time of greatest need.

Deputies

Hear, hear.

Deputy Brian Lenihan

It is important to remember that the Government's support for our banks has not been unconditional. Financial benefits have accrued to the State from the fees related to the guarantee, which will amount to €1 billion. The State also holds warrants for a 25% shareholding in AIB and Bank of Ireland, which have gained significant value since the investment. Operational restrictions have been imposed on the banks. Executive pay has been limited. New rules have been imposed on the banks in their dealings with business customers and residential mortgage holders. Nor has State support saved the banks from losses in this crisis. Shareholders, many of them ordinary citizens saving for their future, have suffered from enormous falls in share values and banks have taken large losses on their loan books. Subordinated bondholders have also been hit, with a large amount of subordinated debt being bought back by the banks in recent months at a significant discount. The outcome of these transactions was a loss representing approximately €4 billion to these bondholders and a material contribution to the capital required for the institutions.

I want to reiterate that in all our actions over the past year, our sole concern has been the best interests of the wider economy. The simple fact is that credit remains the lifeblood of any economy. It allows businesses to source funding for productive developments and to foster creativity and innovation so that we can become a more competitive, export-orientated economy. It allows individuals to access mortgage funding and finance the purchase of consumer goods. The only way to restore the flow of credit is through a cleaned up banking system.

That is precisely why the Government has decided to set up the National Asset Management Agency. NAMA will facilitate the speedy removal of higher risk property related assets which are clogging up the banks' balance sheets and greatly hampering their ability to lend to creditworthy individuals and households and thereby support economic activity. This general approach to dealing with distressed assets has been supported and

recommended by banking experts across the globe. The model has been successfully implemented in a number of countries in the past where similar issues with problem loans have arisen. Countries such as Germany and the UK are also introducing asset relief schemes. Indeed, the European Commission has issued state aid guidance in this area specifically to assist member states that have chosen to take steps to establish asset relief schemes. International agencies such as the IMF and the ECB have commented favourably on the approach. In other words, this is a proven policy response which has been successful elsewhere and will be successful in Ireland.

As we rebuild our banking infrastructure we must reform our oversight mechanisms so that our regulatory and supervisory system ensures we have a banking system that is fit for purpose, supports economic recovery and will prevent the economy from being undermined by rogue and undisciplined actions within the sector.

Turning to how NAMA will operate, individual institutions must apply and be accepted as participating institutions. The Bill includes fair and objective criteria for the selection of the institutions that would participate in NAMA consistent with the EU state aid guidelines. As I made clear at the discussion with the Joint Committee on Finance and the Public Service on the draft National Asset Management Agency Bill on 31 August, under the legislation any credit institution in Ireland can apply for participation in NAMA and each application will be assessed strictly in an objective and non-discriminatory manner in accordance with the statutory criteria included in the Bill and EU state aid requirements. With this in mind, I will be proposing a Committee Stage amendment to section 60 of the Bill to increase from 30 to 60 days the period of time that credit institutions have to apply for designation as participating institutions in NAMA to facilitate the application process.

The figures I am presenting today relate to five institutions, namely, Allied Irish Banks, Anglo Irish Bank, Bank of Ireland, EBS and Irish Nationwide Building Society. These are the institutions in which we have had the opportunity over the past year to carry out the necessary due diligence, analysis and stress testing. The agency will buy the land and development property loans and certain associated loans from the banks at prices well under the current book value. It will then manage these loans over time to achieve the best possible financial return for the taxpayer. NAMA will start with the largest systemic exposures across the institutions and it is expected that by the middle of next year most of the loans will be transferred. NAMA will leave behind smaller, cleaner and better funded banks that can focus their resources on their core function of lending to the productive economy.

It is likely that some institutions will require additional capital in order to absorb the losses arising from the transfer of their impaired assets to NAMA and in order to maintain appropriate levels of capital. I want to make it clear that the Government would expect such an institution to explore all available options for raising such capital. It is the Government's preference that private market solutions are found and implemented. The banks and building societies will be expected to increase the equity component of their capital base as the NAMA asset transfers are implemented. To the extent that sufficient capital cannot be raised independently or generated internally, the Government remains committed to providing such banks and building societies with an appropriate level of capital to continue to meet their requirements. This will be done in a manner consistent with EU state aid rules and the credit needs of the Irish economy. Any recapitalisation of a credit institution in such circumstances must be followed by restructuring in a manner which complies with EU state aid requirements. Not only is this a bare EU requirement, it is essential that restructuring takes place side by side with capital investment.

It is expected that NAMA will purchase loans with a book value of approximately €77 billion. The approximate breakdown is as follows: Allied Irish Banks, €24 billion; Anglo Irish Bank, €28 billion—

Deputy Michael Ring

Shameful.

Deputy Brian Lenihan

—Bank of Ireland, €16 billion; EBS, €1 billion; and Irish Nationwide Building Society, €8 billion.

Deputy Michael Ring

They should all be in jail.

Deputy Brian Lenihan

Further details of the loan books of the institutions are contained in the supplementary documentation. It is projected that 36% of the assets will be land, 28% development property and 36% in associated commercial loans. The estimate is that 40% of these loans are cash flow producing. The cash flow produced will be sufficient to cover interest payments on the NAMA bonds and operating costs. The geographical breakdown of the assets is about two thirds in Ireland, one fifth in Great Britain, 6% in Northern Ireland and most of the remainder in the USA and Europe.

The price to be paid for these assets will be a lot less than their €77 billion book value.

Deputy Pat Rabbitte

That is a relief.

Deputy Bernard J. Durkan

How much less?

Deputy Brian Lenihan

The valuation formula has regard to EU guidance taking into account both current market conditions and long-term economic returns. This strikes a balance between reflecting the long-term potential of these assets while minimising any potential risk that NAMA will make a loss.

The legislation sets out a comprehensive methodology on how assets will be valued and I am publishing today draft valuation regulations which provide further detail on the valuation process. This valuation framework must accord with EU state aid guidance and is subject to EU approval. Application of the valuation methodology is a complicated and extensive process and it must be remembered that each loan must be valued individually in accordance with the methodology. In that context, any estimate of the price to be paid for the assets is provisional in nature. From our estimates, it is expected that NAMA would pay approximately €54 billion in relation to the €77 billion in loans. This is an estimated aggregate discount of 30% and the final figure will depend on the detailed evaluation of each individual loan. Nevertheless, it is essential for this House and the Irish people that an estimate be provided at this stage.

The final figure will only arise if the Oireachtas enacts this legislation and the individual valuations are completed. Loan quality, geographic distribution and type of loan will all vary from institution to institution. These figures cannot be applied to extrapolate to individual portfolios or loans. It is essential to the NAMA process that final decisions on these kinds of numbers

will be made only after an exhaustive bottom-up valuation process. The valuation process will be designed to meet the standard that will be expected by the EU Commission.

The estimated current market value of these assets is €47 billion.

Deputy Bernard J. Durkan

That is doubtful.

Deputy Brian Lenihan

Deputies should consult the accompanying documentation to see how this figure was calculated. This is an estimate based on certain assumptions and information about the property market including a fall in average property values in the State of about 50% since the peak in 2007.

Deputy Damien English

That is land. There is a big difference with property values.

Deputy Brian Lenihan

This average masks a very large degree of variation in property value movements depending on factors such as location, the nature of the property and so forth.

The fall in property values has pushed up property yields. Yields are now above their long-term average and this suggests that values are bottoming out. In fact, the gap between yields and interest rates is much higher than at any time since the mid-1990s. Further details are available in the supplementary documentation.

Deputy Joan Burton

That is because interest rates are kept low by the ECB.

Deputy Olivia Mitchell

Smoke and mirrors.

Deputy Brian Lenihan

Using the adjustment factors set out in the legislation, the current estimate of the allowance for long-term economic value is €7 billion. I know there are reasons to argue whether any allowance should be made for long-term economic value but we are here to help the economy and people by putting our financial system back on track. We cannot do that by forcing banks to sell assets at below what would be rational prices for them.

Deputy Joan Burton

And the developers, do not forget them.

Deputy Brian Lenihan

As US Federal Reserve Chairman Ben Bernanke has said, "Banks will have a basis for valuing those assets and will not have to use fire sale prices. Their capital will not be unreasonably marked down".

Deputy Bernard J. Durkan

What about the taxpayer?

Deputy Brian Lenihan

We also reject the idea of forcing distressed asset prices on the banks and we must ourselves find the right balance. We will not pay too much for these assets—

A Deputy

Of course they will.

Deputy Brian Lenihan

—but paying too little has its own consequences for the economy and this is not the time to expand our risks.

This limited allowance for long-term economic value will be de-risked. The Bill provides for part of the consideration for the assets transferred to be in the form of subordinated bonds, which puts the bank at risk if NAMA were to lose money – which is not our expectation – without giving them an upside in relation to its gains. In addition, we intend to introduce a levy if on the winding up of NAMA there were to be a deficit.

Finally, I should note that the State owns 100% of Anglo Irish and, currently, substantial economic interest in the two largest banks.

Deputy Pat Rabbitte

Are we not lucky?

Deputy Brian Lenihan

Those who argue that I am transferring value to shareholders must agree that this is very much reduced by the fact that the State is in itself a shareholder for a substantial part of the system.

The proportion of the total consideration, which will be in the form of subordinated debt and therefore at risk to the bank and linked to the performance of NAMA, will be approximately 5%. Let me repeat this point: the protection for the taxpayer of the risk sharing mechanisms, and if necessary a levy, will ensure that any unjust enrichment of private shareholders by paying an allowance over current market value can be recouped, but of course if NAMA makes money, this will accrue to the taxpayer.

Deputy Jim O’Keeffe

That will be the day.

Deputy Brian Lenihan

Taking the subordinated debt into account, it is estimated that NAMA will have to achieve less than a 10% uplift over the current market values on its assets over ten years to break even. Let us put that figure in perspective; assuming that NAMA were to dispose of the majority of its assets in the second half of the decade, this uplift in property values would be achieved even if values kept pace with general consumer price inflation. In that case, real – that is, inflation adjusted – property prices in ten years' time would still be 45% below their values of late 2006. To be clear, there is no assumption in our work that peak property prices will be repeated. The Governor of the Central Bank, Mr. John Hurley, and the incoming Governor, Professor Patrick Honohan, have stated to me that having regard to the uncertainty in property price movements, the proposed add-on of 15-18% to the estimated current market price does not seem out of proportion with the range of potential upward price movements, especially when a risk sharing element is included.

Deputy Olivia Mitchell

He said more than that.

Deputy Brian Lenihan

A risk-sharing element has been included.

The amount a borrower owes will not change because of the transfer of a loan to NAMA. The agency will have a statutory duty to maximise the taxpayers' return and will therefore be expected to use all of its means to this end. The Bill provides the agency with a wide range of powers it needs to pursue borrowers and enforce security. In some cases this will mean that borrowers' personal assets will have to be assumed by NAMA.

I am also conscious of the need to avoid a repeat of the current position in the market for development land. A requirement has been included in the Bill obliging NAMA to have regard for the need to avoid undue concentrations or distortions in the market for development land. I intend to issue guidelines governing the agency's interaction with borrowers in the completion of properties acquired by NAMA.

The banking system has let us down. However, it can revive and serve our economy in a proper manner, but the existing structures cannot remain the same. Already a number of banks are developing restructuring plans to tight deadlines to meet EU requirements arising from recapitalisation options. Any institution participating in NAMA will be required to restructure its operations and I will be insisting that this is a real process leading to a reformed and re-invigorated banking system. It is too early to outline a definitive shape for the new system and there must be scope for subsidiaries of external banks to play their full part. This will be the focus of my work in the coming weeks.

I referred earlier to the importance of the bank guarantee scheme in stabilising the banking system following its introduction last year. In June last,

I introduced changes to the scheme as part of the Financial Measures (Miscellaneous Provisions) Act 2009 which allowed for the extension to the Government guarantee contained in the Credit Institutions (Financial Support) Act 2008 beyond the current expiry date of 29 September next year. As I announced in the supplementary budget, the guarantee will be amended to facilitate access for Irish financial institutions to longer term debt. I propose to adjust the current guarantee but retain all of the most important features. The details of this will be published on my Department's website this afternoon. The new scheme will be somewhat more targeted. It will allow for greater long-term debt issuance under the guarantee, moving it more towards the European model. The revised guarantee scheme will represent the necessary first step in an exit strategy for the State from the blanket guarantee offered in September 2008. However, it is clear that the stability provided by the guarantee remains important and it will remain extensive and retain the blanket guarantee for deposits.

A key feature of the modified guarantee scheme is that it allows the covered institutions to access un-guaranteed funding. Over the past month certain Irish institutions have started taking the first steps towards issuing un-guaranteed term debt and I very much welcome this positive trend and sign of improved vitality in the banking system. EU State aid approval for the scheme is at an advanced stage. A formal market notice will be issued later this month once Commission approval has been secured and I anticipate that I will bring the necessary statutory instrument to commence the scheme before the House in early October.

The funding advantages provided by NAMA, together with the continuing support of the guarantee scheme, will underpin the stability of funding for the Irish financial system. The House will be aware that market participants pay keen attention to our debates on financial matters. For the avoidance of doubt in the market, all liabilities covered under the existing guarantee on

liabilities, known as the CIFS scheme, will remain fully guaranteed until 29 September 2010.

Deputy Caoimhghín Ó Caoláin

Has the Minister taken any steps on citizens facing repossession of their homes?

An Ceann Comhairle

The Minister without interruption.

Deputy Caoimhghín Ó Caoláin

Is that not a concern?

Deputy Brian Lenihan

The Central Bank of Ireland is taking its position at the centre of financial supervision and financial stability oversight. Professor Patrick Honohan will succeed Mr. John Hurley as Governor later this month. I thank both of them for their assistance.

A new head of financial supervision will be recruited shortly. New resources and additional expert staff will widen skill sets and expand and enhance the capacity for the reformed institution. I expect the draft legislation providing for the reform of the regulatory system to be published before the end of the year.

As part of the reform package for financial regulation and longer term planning, I am looking at options for a legislative regime to deal systematically with distressed financial institutions. I want to ensure that the

State has in place a range of tools to protect deposit holders and ensure we can deal effectively with problem institutions and at the same time maintain the confidence of international markets. My officials and the relevant authorities are examining the scope of such a regime. I hope to bring forward proposals in this area early in the new year.

Everybody in this House is aware of the effect of the crisis conditions of the last year in the availability of credit to businesses and households. The flow of credit is essential to the proper functioning of the economy. All of the Government's actions in stabilising the banks have been undertaken to ensure that the financial system continues to fulfil its essential functions in providing credit for businesses and individuals. The establishment of NAMA and the removal of identified risky assets from the balance sheets should in itself improve credit supply. The basic business model of a bank – and what generates profits – is on-lending at a margin appropriate for the risk involved. This proposal allow banks to focus on this and addresses the two key existing limitations to new lending. First, it will strengthen and improve the funding position of the banks meaning they have available funding to on-lend. The simple fact is that every euro lent by a bank to a customer must be drawn from deposits or borrowed by the bank from somewhere else. The agency will pay for the loans by giving the banks Government bonds that can be swapped for cash in international markets and at the European Central Bank. Second, the removal of higher-risk assets will allow banks to focus their human and capital resources on their core business rather than trying to work out problem loans. Every new loan requires new capital and banks in their current position need to maintain existing capital buffers to absorb current and future losses.

Specific credit supply measures were incorporated into the Government's recapitalisation packages for AIB and Bank of Ireland. Credit for small and medium-size enterprise – SME – has been a particular focus of concern. As part of the package each bank committed to increasing capacity for SME

lending by 10%, established a €100 million fund for clean energy and environment-friendly investment and a further €15 million for seed and venture capital. The banks report on all of these commitments quarterly and their reports are monitored by the Financial Regulator. The reports clearly show that new business lending is taking place month by month, although at a lower rate than last year, and that substantial numbers of new business accounts are being opened each month.

The Department of Enterprise, Trade and Employment has established a credit clearing group involving business groups, banks, State agencies and Departments which is examining cases of credit refusal referred to it and an e-mail postbox has been set up to facilitate referrals. In addition, that Department is operating the stabilisation fund and the temporary employment subsidy scheme to help viable businesses get through their current difficulties.

To summarise, the Government has made lending to small and medium-sized enterprises a major priority. Various actions have been taken to support viable businesses, to track the real situation and to facilitate access to credit on a proper commercial basis. In terms of specific credit supply measures attaching to NAMA, the Government continues to examine options in this regard and I look forward to the debate in the House.

Some have argued for alternative approaches. As I discussed earlier the risk to the taxpayer of overpaying for assets by paying an allowance for long-term economic value can be mitigated by risk sharing mechanisms and the levy. I wonder if those who argue that NAMA should ignore the fact that the market is currently distressed and that the institutions should be paid current market value realise the cost implications of what they are proposing. The additional capital required by the institutions compared to what might be required under the NAMA approach would be in the region of €4 billion to €7 billion. The capital would have to be provided—

Deputy Joan Burton

How much more will have to be provided in capitalisation?

Deputy Brian Lenihan

The capital would require—

An Ceann Comhairle

Deputy Burton can make her contribution later on.

Deputy Joan Burton

How much more would the Minister have to provide?

An Ceann Comhairle

Deputy Burton, please, you will have the opportunity to make your contribution.

Deputy Brian Lenihan

The capital would require to be provided and have to be borrowed on world markets at current rates of 4%, far in excess of the 1.5% with which this paper can be traded in world markets.

Deputy Joan Burton

We know that the Minister has been doing that all year.

Deputy Brian Lenihan

This capital would have to be provided, and because the banks would be so weakened the only possible provider would be the State. Some of this, clearly, would be offset by the effect of our ownership in the institutions concerned, but this money would have to be provided now, with any payback coming later.

Deputy Joan Burton

He has been doing that all year.

Deputy Brian Lenihan

More expensive still is the Labour Party's reported proposal for blanket nationalisation and a straightforward 50% discount on the loans.

Deputy Joan Burton

We never said that. That is a lie.

Deputy Ruairí Quinn

Where has the word "blanket" come from? The Minister has invented that.

Deputy Brian Lenihan

This would immediately require the State to borrow an additional €10 billion to €14 billion to recapitalise the banks.

An Ceann Comhairle

Deputy Burton must withdraw the word "lie".

Deputy Joan Burton

I object to the Minister not costing his own proposals and his reference to a proposal that the Labour Party did not put forward.

An Ceann Comhairle

Withdraw the word "lie", please.

Deputy Joan Burton

Tell him to cost his own proposal. How can he cost the Labour Party's if he cannot cost his own?

An Ceann Comhairle

Never mind that. The Deputy must withdraw the word "lie" please.

Deputy Joan Burton

How can he cost the Labour Party's proposal when he cannot cost his own?

An Ceann Comhairle

Deputy Burton must withdraw the word "lie".

Deputy Brian Lenihan

Deputy Burton submitted a proposal on this matter to my Department.

An Ceann Comhairle

I am sorry, Minister, but the Deputy must withdraw the word "lie".

Deputy Eamon Gilmore

I really do not believe the Ceann Comhairle should pursue this.

An Ceann Comhairle

It would better if the Deputy withdrew the word "lie".

Deputy Eamon Gilmore

The Ceann Comhairle should not pursue this.

An Ceann Comhairle

"Untruth" will do, the word "lie" is never used, in precedent. The word is withdrawn.

Deputy Brian Lenihan

A lie is an intentional untruth, and I assume that Deputy Burton did not impute an intentional untruth.

(Interruptions.)

An Ceann Comhairle

Members will have an opportunity soon to contribute.

Deputy Brian Lenihan

The Labour Party Members do not appear very anxious to hear the assessment of their proposal. On the assumption, as Deputy Burton indicated in public interviews, that there should be a 50% discount on the loan book, it would require the State to borrow an additional €10 billion to €14 billion to recapitalise the banks. Even under the benign assumption that additional borrowings of this scale would not affect the interest rates on Government bonds, the interest costs of this additional capital would be between €600 million and €700 million each year. That is some mortgage to put around the Irish people's necks—

(Interruptions.)

Deputy Brian Lenihan

—and that mortgage could be put around the Irish people's necks here and now, not in ten years time.

Of equal concern is the damage that would be done to any possibility of recovery in the financial system. The new capital injections would lead to effectively full nationalisation of the banking system. Full nationalisation is Labour Party policy, but it carries with it a very real possibility that those who provide our banks with the funds they need to continue their operations would reduce their level of funding. The simple fact is that it is easier for a commercially orientated banking system to attract the funding it needs to provide credit for the economy. A forced nationalisation of the system would involve significant risks of reduced funding opportunities for the banks. Against a context of the global funding crisis, these are risks we cannot afford to take.

Deputy Michael D. Higgins

What about those who are supposed to be regulating the banks?

Deputy Brian Lenihan

I would draw the attention of the House to the words of President Obama last April on the same subject.

Deputy Pat Rabbitte

We cannot disagree with that.

Deputy Brian Lenihan

He said, and I quote: "Pre-emptive government takeovers are likely to end up costing taxpayers even more in the end and are more likely to undermine than create confidence."

Deputies

Hear, hear.

Deputy Brian Lenihan

That is what President Obama thinks of the policy of preventive nationalisation.

Deputy Michael Ring

Mr. Obama is in enough trouble, too.

Deputy Michael D. Higgins

What was Mr. Hurley doing—

(Interruptions.)

An Ceann Comhairle

The Minister, without interruption.

Deputy Joan Burton

That was after President Obama's nationalisation of Fannie Mae and Freddie Mac—

An Ceann Comhairle

Deputy Burton will have her opportunity.

Deputy Brian Lenihan

That is the view shared by many countries around the world. It is strongly the view of this Government. NAMA will ensure that credit flows again to viable businesses and households by cleansing the balance sheets of Irish banks. This is essential for economic recovery and the generation of employment. It will ensure that we avoid the Japanese outcome of zombie banks that are just ticking over and not making a vibrant contribution to economic growth.

(Interruptions.)

Deputy Brian Lenihan

It will force the banks to take the losses on their riskiest loans earlier than may otherwise be the case and leave them cleansed and better able to get on with their business. This asset management approach protects taxpayers. The evidence from property busts in other countries shows that the longer

bankers and borrowers are allowed to deny the reality of the losses they face, the greater the ultimate cost to the taxpayer and the general damage to the economy. Cleaning the balance sheets of the riskiest classes of assets allows the management to refocus operations towards lending to small and medium-sized firms and away from property speculation.

Deputy James Reilly

As opposed to what we have already.

Deputy Michael Ring

As opposed to the Fianna Fáil builders.

Deputy Brian Lenihan

The announcement of the decision to set up NAMA has already triggered some improvement in confidence in the economy which has led to a reduction in the cost of borrowing for the State. Within the legal boundaries that NAMA must operate, and notwithstanding its commercial remit, it could have a role in creating balanced and desirable places to live with obvious benefits—

Deputy Pat Rabbitte

This is the green bit.

Deputy Brian Lenihan

—for sustainable social values. NAMA could facilitate the Department of Education and Science and the Department of the Environment, Heritage

and Local Government where these bodies have requirements, in areas such as parks, for example and so on—

(Interruptions.)

Deputy James Reilly

We hope the Minister sees the humour in that, himself.

Deputy Pat Rabbitte

What about child care?

Deputy Brian Lenihan

—which facilitate the creation of desirable developments that encourage vibrant sustainable communities.

(Interruptions.)

An Ceann Comhairle

The Minister, without interruption, please.

Deputy Brian Lenihan

Public bodies should be given first options on disposals for a limited period and though they would have to pay the reasonable market price required, they would at least be given the first mover advantage. These bodies have sometimes been held to ransom and have had to pay inflated prices for projects such as school extensions and playgrounds. In disposing of

properties NAMA could play a role in the provision of social and affordable housing.

Deputy Caoimhghín Ó Caoláin

Somebody will have to do it.

Deputy Brian Lenihan

For example, proposals to purchase or take long leases of suitable blocks of unsold apartments or units for social or affordable housing needs can be implemented, where this can be shown to create a commercial proposition for NAMA.

I should now like to deal with the main provisions of the Bill. It comprises more than 200 sections and I propose to outline the principal aspects of each part.

Part 1 sets out in detail the purposes of the Bill and includes some general provisions such as the definitions used in the legislation. It also includes a provision dealing with the sanctioning of certain offences committed under the Bill.

Part 2 deals with the purposes, functions and powers of NAMA. NAMA will have all powers to enable it to achieve its purposes and to carry out its functions. In particular, it will have all necessary commercial powers of a financial asset management company, enabling it to take full and determined action in relation to bank assets acquired. The agency has established the appointment of a board and a CEO and related provisions are in place. As in the case of the appointment of public interest directors to the banks, I will, of course, consult with the leaders of the Opposition parties before making any appointments, either to the chair or the board or NAMA.

Deputy Pat Rabbitte

Rody Molloy is available.

Deputy Michael D. Higgins

Suitably contrite applicants only.

Deputy Brian Lenihan

Part 3 sets out how NAMA will be financed, provides for the issuance of securities, including subordinated securities for the purchase of bank assets. It also sets limits on NAMA's borrowing powers and includes detailed measures in relation to their accountability.

Part 4 deals with the designation of the institutions eligible to participate. Part 5 sets out the methodology for the valuation of the assets. Part 6 provides generally for the mechanics of the acquisition of bank assets. Part 7 sets out two appeal mechanisms for participating institutions. If Members of the House want to devise a valuation method, as Deputy Kenny suggested earlier, that deprives me of an involvement in this position, I am quite happy with such an amendment as long as it establishes and protects the position of the taxpayer.

Deputy Brendan Howlin

That is the Minister's own language.

Deputy Seymour Crawford

What about the Government backbenchers?

Deputy Brian Lenihan

As long as it establishes and protects the position of the taxpayer—

Deputy Bernard J. Durkan

What about the market value?

Deputy Brian Lenihan

—I am not prepared to contemplate the establishment of an entity that has no responsibility or accountability to this House.

Part 8 governs the relationship between NAMA and participating institutions. Part 9 gives certain powers to NAMA to allow it to deal with bank assets transferred to it. Part 10 deals with legal proceedings. Part 11 governs the disclosure of confidential information to NAMA. Part 12 deals with the conduct of participating institutions. Part 13 deals with various miscellaneous matters. Part 14 deals with the review. I, as Minister, may at any time require NAMA to report on the progress it has made. I will assess at 31 December 2012 and thereafter every five years the extent to which NAMA has achieved its objectives. The Comptroller and Auditor General will report at 31 December 2010 and thereafter every three years on the progress being made by NAMA.

Part 15 deals with technical amendments. The Schedules also contain a number of technical amendments. I also propose to bring forward a number of amendments on Committee Stage. The main proposed amendment is that windfall gains on rezoned land will be subject to capital gains tax at the rate of 80%.

Deputy Bernard J. Durkan

The Government will get a lot from that.

Deputy Brian Lenihan

Since this crisis began a year ago, our sole objective has been the common good.

(Interruptions).

An Ceann Comhairle

You made a comment that the Minister for Finance should conclude; now please let him do so.

Deputy Brian Lenihan

The common good of this country requires, first and foremost, a return to economic growth. Economic recovery is dependent on three key factors. The first is getting the public finances back in order. That work is well under way and will be debated in this House when I bring forward the budget in December. The second is restoring our competitiveness by reducing our cost base. The final key element is a healthy banking system that will serve the needs of the wider economy. Without a properly functioning banking system, we will not have economic recovery. It is as simple as that. Having stabilised the financial institutions over the past year, we must now move to cleanse them of their infection and return them to full health. The necessary controls have been included in our plan to ensure that the interests of taxpayers have been and will be protected throughout the process of repair. The reforms I will introduce to our regulatory and supervisory structures will ensure that there will be fair, but forceful, oversight of the banking sector.

I thank those in various Departments and Government agencies as well as my financial and legal advisers who have worked incredibly hard over the past year in highly pressured conditions to deal with this crisis. The suggestion that, in setting up NAMA and in drawing up this legislation, they were somehow colluding in some conspiracy to protect narrow sectional interests is unworthy of any Member of this House.

Deputy Michael Ring

The Minister would not even think of it.

Deputy Bernard J. Durkan

They will be reassured to hear that.

Deputy Brian Lenihan

Their work has been entirely in the national interest and history will prove their case.

Let nobody underestimate the scale of the task before us. Our banking system during the boom years was driven at reckless speeds—

A Deputy

By this Government.

Deputy Brian Lenihan

—and when it hit the wall last September, the damage was huge. Our banking system needed radical surgery. We never once shirked our

responsibilities or shied away from taking bold actions when we judged that such actions were needed.

Deputy Jim O’Keeffe

A call to patriotic action.

Deputy Brian Lenihan

Earlier in the debate I heard Deputy Kenny indicate that he was willing to engage with the Government on his alternatives. In late August I wrote to Deputy Kenny and made it clear to him that my officials and I were prepared to engage on a confidential basis with any proposals he might like to make in that regard. That offer remains open. I am more than open to working with all the parties in the House to resolve the problem.

Others had the luxury of indulging in abstractions and recrimination – I am not referring to the Opposition parties. The Government needed to act and it did. Our critics say we should have done things differently. While they are entitled to their views, nobody can deny that the Government took brave and decisive steps when they were needed because we care about the economy and the citizens of this country.

(Interruptions).

Deputy Brian Lenihan

I again return to a speech earlier this year by President Obama about the banking crisis in the United States.

Deputy Michael Ring

Poor old President Obama is in trouble.

(Interruptions).

An Ceann Comhairle

Allow the Minister to finish his contribution – he is coming to the end.

Deputy Pat Rabbitte

Give us another bar of Obama.

Deputy Brian Lenihan

President Obama said, ". . . whether we like it or not, history has shown repeatedly that when nations do not take early and aggressive action to get credit flowing again, they have crises that last years and years instead of months and months – years of low growth, years of low job creation, years of low investment, all of which cost these nations far more than a course of bold, upfront action."

Deputy Bernard J. Durkan

It could be prophetic.

Deputy Brian Lenihan

NAMA is our bold, upfront action. I commend the Bill to the House.

(Interruptions).

Deputy Pat Rabbitte

The Minister did not get applause like that since the medical cards.

Deputy Richard Bruton

I move amendment No. 2:

To delete all words after "That" and substitute the following:

"Dáil Éireann declines to give the National Asset Management Agency Bill 2009 a Second Reading because:

1. The Government has published neither the Bacon report that underpins the NAMA proposal nor any proper analysis of this enormous initiative in terms of:

a. The enormous risks for taxpayers of using a dubious and politically influenced valuation methodology to pay €90 billion for assets of highly uncertain long-term value;

b. The growing doubts regarding its impact on bank lending;

c. The growing concerns from creating a secretive, politically directed, state-managed, tax funded work-out process for 1,500 property developers.

2. The Government has not facilitated a review by the Oireachtas of independent analysis of alternative banking solutions which international evidence suggests are likely to be more effective at getting credit flowing, less costly and fairer for the taxpayer and less vulnerable to political manipulation and business lobbying."

This is a decision of truly enormous proportions. The Minister is asking us to make a commitment on behalf of the taxpayer today of €54 billion. That is

the highest commitment ever made by any Minister in any Act before a Parliament. It represents for every family in the country €34,000 of mortgage that they are being asked to pay in order to purchase these impaired loans from the banking system. The crisis we are now facing has not happened because some tsunami has swept onto our shores from international waters and engulfed us. This has happened because of catastrophic policy failures. It was the Government's regulatory system that failed to call a halt. It was its public finance policy that led to reckless overspending and exposure of the taxpayer. With its system of cosy relationships, it refused to confront problems and instead sought to buy them out and cosy its way around them. It is those problems that have left us in the hole we are now in. Those problems led to the easy money and the runaway property bubble that have brought our people to their knees.

The taxpayer is being asked today not only to buy these impaired loans, but as the Minister has said also to pay €7 billion extra for them over their market value. That is an extraordinary amount of money. Remarkably, this extraordinary decision is being taken without any forensic analysis of the costs and benefits of this approach or of the risks and threats that are clearly involved. It is happening at a time when funding is being slashed for many important needs in our community, including investment in vital infrastructure, care for extremely sick people and support for disabled children. It behoves us to treat this as real money because real money is what it is. This €54 billion is not, as the Minister for Defence, Deputy Willie O'Dea, seems to think some sort of fairy money on which we do not need to pay the interest or ultimately pay it back. This is real money. We pay the interest on it and we need to pay it back. It ultimately falls on the taxpayer and our children who need to service that debt.

Let us be under no illusions about the decisions we are about to take. If we get this wrong – I believe we are getting it wrong – we will undoubtedly prolong the recession that our people will face. We will increase the number

of job losses in businesses around the country if we get this banking solution wrong. Let me try to assess what we have heard today. We have heard that the write-down is to be 30%, which is strikingly low. On behalf of the Green Party, Ministers and spokesmen were saying it needed to be at least a 50% write-down on the loans. We have now moved away from that. As recently as 31 August the Minister advised the Oireachtas Joint Committee on Finance and the Public Service that we were protected by an equity buffer of 25% in these loans. Today, the Minister was forced to reveal that that is not 25%, but half of that and he has only taken one element into account to determine that half of it has disappeared and that is rolled up interest. I wonder how much more will disappear before we find the truth of the matter.

We were told that the €7 billion step-up would be allocated 50-50 between senior and subordinated bonds. However, it is not being shared 50-50. Only one third of the extra will be shared through subordinated debt. Already, what seemed to be pillars of the new approach are being hacked away at.

Remarkably, we are told the taxpayer must pay a 15% mark-up on the value of the loans. Where is the underpinning for that? What evidence has the Minister offered to support his contention that we must pay that? He suggests there will be a bounce-back in prices of at least 10%. Where is his evidence? A reputable commentator – one of the few who forecast the crash – has told us a further 20% fall in property prices is likely.

Deputy Damien English

At least.

Deputy Bernard J. Durkan

That is correct.

Deputy Richard Bruton

The Minister is assuming, for this exercise, that not only have we reached the bottom but we are about to bounce back. Yet he has not offered supporting evidence for this. It is extremely worrying that we are being asked to make this decision without access to proper evidence. This goes to the core of the issue.

One thing Irish people have learned over the last seven years is not to accept glib assurances from Ministers that everything will turn out all right on the night. Many of those who are telling us today there is no alternative to NAMA are the same people who told us the property price rises were based on sound economic fundamentals.

Deputies

Hear, hear.

Deputy Richard Bruton

They are the same people who were telling us there would be a soft landing. They turned around to the critics and said it was an act of national sabotage to criticise the wonderful policies the Government was pursuing. These people are now hatching up the idea that there is only one game in town. The new creed is the notion of long-term economic value, which has replaced the concept of sound economic fundamentals. It is telling us that for these people the dream lives on: a bounce-back is just around the corner.

Deputy Brian Lenihan

Over ten years.

Deputy Richard Bruton

We cannot risk public money on the back of an assurance by the Minister or anyone else. The Irish taxpayer is being asked to pay more than the value of these loans because the Minister or one of his advisers believes things will be rosy. There is no buyer who goes out and pays over the ante in the marketplace on the basis that things will get much better. There is no sound reason the Irish taxpayer should be paying over the ante either.

There are also those who say to us we should don the green shirt. Now is the time to rally round; let us all put our shoulders to the wheel. People who say we should support proposals whether they are right or wrong are leading us down the wrong route.

Deputies

Hear, hear.

Deputy Richard Bruton

That view is wrong. The history of this House is strewn with cases in which Irish people have paid dearly because important questions were not asked or, if asked, were not answered. I am determined that we will not leave questions unasked and unanswered in this debate.

Deputies

Hear, hear.

Deputy Richard Bruton

I have also heard the argument of political opportunism – that the Opposition should let this go to avoid facing difficult decisions. That, again, is a dangerous route. The patriotic thing to do now is to ask the hard questions, put this under real scrutiny and expose the fact that we are making a mistake. We are embarking on a ship that is not seaworthy and heading in a direction that will not save the Irish taxpayer or the economy. We must, even at this late stage, reconsider what is at stake. This is a major decision and we must do everything in our power to get it right. It has engendered unprecedented debate, as any Member who looks at his or her e-mails every day will see. We should be proud that people are really engaged. There is intense anger and rage at times about what is involved, but we must channel that rage to make sure we decide on this proposal in a mature way. We are determined in this Second Stage debate – the debate on the principle of the Bill – to fight tooth and nail against this decision, because we are convinced the Minister is making a mistake we will pay for.

Our approach to resolving the banking crisis starts by determining the problem we are attempting to solve. We need to get credit flowing for ordinary businesses and families so that jobs can be protected. That is what we need to do, not bail out bankers or developers. We must sustain a financial system that can support employment. At times the Government has lost sight of this important distinction. It is a distinction economists would make: which parts of the bank are systemically important and which are not?

Deputy Michael D. Higgins

Yes.

Deputy Richard Bruton

The Government is unwilling to discuss the notion that there are elements of the banks that are good and need protection and elements that are bad and

do not need to be protected.

Fine Gael's approach to this has led us to separate the flow of credit solution from the bank resolution solution. We are doing that for sound reasons: we can use public money more effectively if we make that distinction. This means establishing a national recovery bank and using €2 billion of taxpayers' money to put credit straight into the arteries of businesses who need it. This idea was debunked by Ministers and spokespersons on the other side, I recall a mention of fantasy banks. However, such a scheme was up and running in France within months. RTE had a piece last night in which this was described. This is not something that is bizarre and extraordinary, as Ministers would like to pretend, but something other countries are doing, which is working. These institutions are providing credit to businesses who will not get credit from zombie banks. That is an important point.

The second phase should be a bank resolution system which is designed to give the banks themselves the opportunity to work out their problems. They created them; let them work it out and take the primary responsibility.

Deputies

Hear, hear.

Deputy Richard Bruton

We will stand at the ready to protect and save what is systemically important in the banking system so that if the banks cannot meet stress tests and must come to the State for aid, it will clearly be on the basis of saving what is important – the parts that will keep our economy, our businesses and our families going – but leaving certain investors to deal with the toxic loans and the bad decisions they made. That is an important distinction.

This approach to bank resolution has many positive aspects that do not feature in NAMA. The risks and the responsibility for working out problems will remain with those investors who created them and the losses that occur will be first borne by those professional investors who made them. That is an important principle and goes to the core of many people's concerns about NAMA. It also establishes a way of accessing money from the ECB and from markets, not to support impaired loans and nurse them along but to get money to businesses that need it. This is also important. It avoids creating a State-run property monopoly with all its attendant dangers, which have been analysed elsewhere, and exposure for the taxpayer. If there is one thing we have learned in 20 years of politics it is that if we mix political power with property ambitions it is an explosive combination and contrary to the public interest. The idea of a State-controlled monopoly, operating in a secretive way, is going back down a road we should have learned, at our cost, not to embark upon.

Our proposal also offers a coherent framework not only for this banking crisis but for the behaviour of banks in the long term. We, the Oireachtas, and the Irish public see a distinction between what is systemically important within the banks and deserves our support and protection, and what is not. We will know the sort of lending practices and activities that we will not be supporting, and banks will know about this approach now and for the future. This is an important principle that we ought to enshrine in our approach to this.

Most importantly, the proposal does not use scarce public money to nurse along the impaired loans but to help with export-led recovery. It avoids the debate about the need to value these impaired loans, where there are major risks even if we are using market values, as many have pointed out. It also avoids us crystallising all these losses up-front, which we do not seek to do. I heard the Taoiseach say this process is all about crystallising losses. It is all very well to talk about crystallising the losses, which were created by investors

in the bank, but the impact for the Irish taxpayer of the crystals the Taoiseach talked about creating will be felt like shafts of glass in terms of what he or she will have to pay. That is the crystallising process the Taoiseach is creating.

Deputy Bernard J. Durkan

Hear, hear.

Deputy Richard Bruton

The Taoiseach is shifting the burden from where it was created to the taxpayer. That is not the correct approach we should adopt.

NAMA fails the critical tests of being effective, fair and of involving the least cost. It does not square up to those criteria. Its origins do not start with the needs of enterprises and families. It does not distinguish the important part of banking from the unimportant part. It is built on the silly notion that in order to protect our reputation we have to stop the laws of capitalism as it deals with investors, bondholders and subordinated bondholders in our banks. It places the objective of keeping the banks in private ownership on a pedestal above all other considerations, a pedestal on which it does not deserve to be placed.

Having listened to what the Minister said and the various changes announced or suggested by backbenchers, the fundamental principles of NAMA are still the same. It is the determination to pay hope value for these loans purchased, €7,000 million in excess of their actual market value. Asset recovery will still be operated as a politically controlled bureaucracy.

The conduct of this public business will be done under a veil of secrecy. There is an innocent faith at the root of it that the banks will suddenly lend. It is now the eleventh hour and the legislation is about to be passed and we have

yet to see any aspects of the mechanism the Minister has told us he is dreaming up to make sure that NAMA gets credit flowing to business. We have been told that a mechanism is being hatched together—

Deputy Brian Lenihan

There is a mechanism for cash bonds at 1.5%.

Deputy Michael Creed

For its balance sheet.

Deputy Richard Bruton

—which will be revealed at some stage during the debate. We are embarking on paying out €54,000 million of taxpayers' money, yet we will now have to wait until Committee Stage to see if it will result in credit flowing to business. Does that not put a huge question mark over the thinking that has gone into this legislation?

Deputies

Hear, hear.

Deputy Olivia Mitchell

It is a question of priorities.

Deputy Richard Bruton

Once one decides to pay hope value instead of market value, one destroys the concept of fairness. It implies that taxpayers are being forced to pay more

for what they are getting than what they ought to pay. That approach destroys the concept of fairness.

There is plenty of international evidence to show that the state is not good at running asset recovery. When political objectives are involved – one of the Government's considerations is to bring new political objectives such as various social objectives into the asset recovery process – and once one starts down the road of making political deals, sweetheart deals and special concessions for some social purpose, the evidence shows that one undermines and destroys the capacity of an asset recovery system to work.

The Minister's assurances are worth very little when the evidence shows that these systems have not worked where they have been tried elsewhere. They worked in one country, Sweden, which nationalised its banks first and then ran a tight system. However, let us be clear, Ireland is not like Sweden. When it comes to the relationship between property and politics and business, Ireland is not like Sweden. We have to put in place protections, which the Swedish people appear to have in their DNA.

Deputy Michael Creed

We need some genetic engineering.

Deputy Richard Bruton

I have heard the Minister say time and again that the collapse of Lehman Brothers is the reason we have to protect everyone. He has learned the wrong lesson. The problem with Lehman Brothers was that its collapse spread panic because there was no framework for managing what it was doing. It was not the case that it was letting investors and bondholders suffer losses; that was not what was wrong. However, the Minister seems to believe that if we let any bondholder in our banks compulsorily lose money the world will fall in on top

of us and we will not be able to borrow any more. Let us be blunt; these debts were not debts of the Irish people.

Deputy Michael D. Higgins

They were gambles.

Deputy Richard Bruton

There were not raised on behalf of the Irish taxpayer.

Deputy Seán Barrett

Hear, hear.

Deputy Richard Bruton

The taxpayer does not have an obligation to meet them. The interests of foreign investors considering investing in Irish Government paper are the same as those of the Irish taxpayer. They want to see a government that is frugal with its money and that will not be a soft touch for bankers who have made bad investments.

Deputies

Hear, hear.

Deputy Richard Bruton

They want a government that will be careful and will approach banking, as it does ever other issue, in a tough-minded way. The mistake the Minister is making is that he believes that bondholders cannot discriminate between

investments made in banks and investments made in a sovereign state that is determined to manage its affairs effectively. That mistake underlies the Ministers' approach.

We are making an enormous decision in this legislation, one involving €54,000 million, €34,000 for every family. One would expect that a cost benefit analysis would have been produced. For a project that is less than one in 2,000 the size of this project, the Minister requires that a detailed cost benefit analysis must be prepared. Where is the cost benefit analysis for this project? Where is the White Paper? If a defence policy initiative was proposed, a White Paper would be prepared outlining the pros and cons of it, the costs and the benefits and the reasons it is proposed. Where is the White Paper on this proposal or any of the evaluation of the potential threats, risks and downsides of this as well as the potential benefits? No such analysis has been provided. All we have is 11 pages from a consultant who was hired by the Minister to provide a consultant's report. We have not even seen his full report.

The chief executive of the NTMA was kept out of the loop and therefore did not have an opportunity to evaluate the proposal. The Central Bank has not offered any evaluation of the proposal. It has said that it backs it without any evaluation. Where is the hard-nosed evaluation that we would expect on even modest policy proposals showing the risks and the benefits and the analysis of the alternatives outlining their benefits and downsides? Instead we have been treated to highly polemical and political attempts to discredit any alternative. I have been exposed to it, as have other parties. We have heard of fantasy banks.

Deputy Brian Lenihan

Why did the Deputy not seek to have his proposals evaluated?

Deputy Richard Bruton

There was no attempt to have a serious engagement on these matters. That is one of the flaws in the approach.

Deputies

Hear, hear.

Deputy Richard Bruton

It is extraordinary that there has been a deafening silence. Those who are defending this approach are largely conscripts and people who have vested interests in the system. We need an objective debate on this. Let us not forget that these are decisions where the interests of taxpayers and the interests of investors in banks are pitted against one another. We have to make decisions that are based on proper understanding of those considerations. Taking the approach that it is five minutes to midnight, that we must get something through and we have been waiting too long to act, is not the way to make this decision. That would be a serious mistake.

Deputies

Hear, hear.

Deputy Richard Bruton

The way in which alternatives have been treated by other Ministers and by the Government undermines confidence in this debate. It has not been focused on defending what has been put forward in the NAMA legislation, the overpaying that is proposed. Why is it proposed to pay this long-term economic value? All the debate has been about the Government trying to

discredit alternatives. Ministers need to have the confidence to put the analysis on the table. There is an analysis and the Government is defending what it is doing; it is not analysing the impact and pros and cons of it. We deserve to have such an analytical approach.

One does not need to have a long memory in this House to remember a time when critics were brushed aside and told they should go and commit suicide

Deputy Michael Ring

That is right.

Deputy Richard Bruton

—because they were questioning pillars of Government policy. We were told that scarcely a year ago. The critics today are being treated in the same way. We need to heed the critics because we have to make such significant decisions.

Certain disinterested evaluations of what is proposed have been made and a number of international sources have commented. The ECB has said beware of paying more than the market price.

Deputy Michael Ring

That is right.

Deputy Richard Bruton

—but the Minister is insistent on doing it.

Deputy James Reilly

It is financial treason.

Deputy Richard Bruton

The Swedish Minister for Finance has said the Swedish model is entirely different from what the Minister proposes and it was based on tough hard-nosed approach to valuation, again something which the Minister rejects. The IMF warned of the pitfalls of seeking to avoid nationalisation as a guiding principle of policy and so forcing the State to engage in this charade of evaluations – again that advice is not being heeded. Patrick Honohan asked for a risk sharing mechanism that did not leave subordinated bonds of questionable value on the banks' balance sheets but instead forced the shareholders and the investors to take risk in NAMA. That advice has not been heeded. The IMF in its study said that state-run politically controlled asset recovery management systems are not successful. Its advice is not being heeded. Serious international players are offering their views but those views are not being embodied in the Bill before us. That is something we cannot afford to ignore. There are precedents for a different approach. France embarked on the NAMA approach in the case of Crédit Lyonnais and 64% of the money was lost.

Deputy Brian Lenihan

They paid at 90% for the loans.

Deputy Richard Bruton

What is France doing now? It has switched to a national recovery bank along the lines proposed by Fine Gael. It is pursuing the approach we have adopted of getting credit going to the companies that need it and using ECB liquidity.

Deputy Brian Lenihan

For the existing banks, Deputy.

Deputy Richard Bruton

It is important for the Minister to remember that international best practice on the way to deal with a banking crisis has evolved since he first hatched the NAMA approach. At that stage, examples of recovery banks were not plentiful but now we have a very good example of a recovery bank that is even being reported on the national airwaves. Bank resolutions that separated good from bad and made the professional investors pay for their bad decisions were not plentiful but we have now plenty of examples, including Northern Rock, Washington Mutual and Bradford & Bingley. They are approaching the matter in the way Fine Gael has suggested, namely, separating what is important from what is not and protecting only what is important. Prominent people such as Joe Stiglitz, Paul Romer and Willem Buiter are now supporting the type of resolution we are proposing, as is the big investor, George Soros. Even the European Commission has said to the Government that it is wrong to say that bondholders cannot be forced to take a hit. In the case of Anglo Irish Bank it instructed the Government that it must not pay interest on the—

Deputy Brian Lenihan

It did not instruct us. The Deputy should stop misrepresenting the facts.

Deputy Richard Bruton

—subordinated bonds that were involved in that case.

Our approach to the debate is that we are determined to try to stop this Bill. We believe that it is a mistake, but we are not going to be pigheaded. If we lose the debate on the principle, we will persist in trying to get the best deal to protect the taxpayer in anything that goes ahead. We want to see amendments. We want to see a reversion to market value as the only basis on which taxpayers should be exposed. We want to see a willingness to allow involuntary losses for the subordinated bondholders in these banks. We want to see a satisfactory methodology of valuation that does not have Ministers at the heart of the appeal mechanism and no appeal system where it is proposed to pay too much for those assets. We only want an appeal mechanism where the banks feel they got too little.

We want to see the flawed risk sharing proposal adopted by the Minister changed to one that is robust and of the type advocated by the current Governor of the Central Bank. We want to see the unacceptable recovery system, which is shrouded in secrecy, exposed, with full disclosure and the protection of the Comptroller and Auditor General. He should be in a position to objectively advise the House on how business is being conducted on our behalf. We want to see proper Oireachtas oversight of this extraordinary animal the Minister is creating.

We want to see robust mechanisms that will ensure liquidity flows. In our view, that robust mechanism is the establishment of a national recovery bank. We want to see that proposal embraced and included. We want to see proper disclosure of all beneficiaries. If the Government wins this principle, we need to remould this legislation from top to bottom. It is a dangerous piece of legislation. We have to move away from the principle.

At this late stage I still appeal to the Minister to look at the alternative approaches that have been successful in other countries that have learned from the mistakes of NAMA, but the Minister is not adopting the lessons they have learnt. We need to pull back from the NAMA approach and set as our

priority the creation of a vehicle that gets credit to people and businesses that need it. That has to be our top priority. The trouble is that what we are seeing today is that after almost ten years of bad management of our public finances, the Bill is coming home to the doorstep of the taxpayer. It is a bill for €54,000 million. We should not lightly ask the taxpayer to pick up that bill when there are many better alternatives that would be more cost effective, fairer and better for our country.

Deputy Joan Burton

As I listened to the Minister, Deputy Brian Lenihan, I thought that the title of his paper ought to be "More Fairytales from Merrion Street" because the Minister is more "Minister ONAMA" than he is President Obama. He treated us to quotes from President Obama but I remind him that, if he bothered to read the quotes and their context, they were made after President Obama became President and in the context of various large banking institutions such as Fannie Mae and Freddie Mac already having been taken into public ownership. They were made after AIG, in effect, was taken into public ownership and, moreover, after a large swathe of Wall Street had been forced into mergers or been acquired and various large regional banks in the United States had either, in effect, been taken into public ownership or had been put into forced mergers and acquisitions. When the Minister chooses to quote I wish that he would at least do so in context if we are to have a useful debate in this House.

I wish to call a spade a spade. The Minister read out a page of shame, namely, page 10, which gave a summary position of the book values of loans in the five banks. I will take him through it again. He said it is €24 billion in Allied Irish Banks, €28 billion in Anglo Irish Bank, €16 billion in Bank of Ireland, €1 billion in EBS and €8 billion in Irish Nationwide Building Society. I wish to say to the Minister and his cronies among the bankers and developers and cronies of Fianna Fáil in the toxic triangle that Anglo Irish Bank, €28 billion,

and Irish Nationwide Building Society, €8 billion, mean Fingers and Seanie to some of us as we read about their capers in the newspaper.

Deputy Pat Carey

The Deputy should stop making allegations.

Deputy Joan Burton

They account for €28 billion and €8 billion of the €77 billion total. That is half of what the taxpayer will have to carry. Were any two bankers in the history of Irish banking and property development ever closer to the Government benches? If there were others, I do not know who they are. When Deputy Gilmore, the leader of the Labour Party, and I visited Merrion Street on the fateful night of the guarantee, I asked the Minister's officials only two questions, as did Deputy Gilmore. We asked about those two banks and the effect they were having on the destruction of Ireland's reputation, especially in London and New York.

Deputy Michael D. Higgins

Hear, hear.

Deputy Joan Burton

All I can say is that the Minister told us then what he is telling us today: "Trust us, we are Fianna Fáil. Everything will be all right." That was what was supposed to happen in regard to the bank guarantee.

Deputy Brian Lenihan

My officials did not say that to Deputy Burton.

Deputy Joan Burton

We were told the fundamentals were sound by the Governor of the Central Bank and the head of the regulatory body, Mr. Neary. A whole series of other officials told us over and over again that the fundamentals of banking were sound. In the previous two years I questioned the then Minister for Finance, now Taoiseach, Deputy Brian Cowen, about his decision to allow the Quinn family and others to gamble on contracts for difference to reduce and avoid having to pay even the modest stamp duty charged on the gambling that took place in Anglo Irish Bank.

The Minister has a nerve to come in here and criticise other parties who have nothing like the track record of Fianna Fáil in terms of collaboration and collusion with some of those who have brought the Irish banking system to this low and who in doing so have put a debt on the head of every man, woman and child in this country of this generation and the next.

Deputy Bernard J. Durkan

Hear, hear.

Deputy Joan Burton

The Minister has a nerve to come into this Chamber and to attempt to cost what he says are the purported proposals of the Labour Party when he has not provided us with costings in respect of his own proposals.

On the proposals, I expected that the Minister would at the very least have come into this Chamber with a business plan. Any small or medium sized business person heading into a bank on the high street in any village or town in Ireland would be required to outline to that bank his or her expectations in

terms of cash flowing in and out of their business and to set out the reasons the bank should provide them with a loan.

Deputy Bernard J. Durkan

One would have a plan.

Deputy Joan Burton

Where is the business plan? Where are the projected cashflows of NAMA over its seven to ten year life span? A person wishing to purchase a house is required to bring to the bank manager details of his or her income and any other family income. The bank manager then works out what he or she may or may not be able to borrow. The Minister has come into this House and provided us with a series of summary figures – to which I will return later – which are grossly and grotesquely inadequate in terms of analysis and the respect he should have, if not the members of his party, for other Members of this House who have a mandate from their electorate to protect their interests.

On the business plan, the analysis provided states that NAMA will pay €54 billion for the loans valued at €77 billion. However, the Minister in his speech states that some of the loans have been evaluated as good loans and others as distress loans, which I do not understand even having spoken about this to some of the people working with the Minister. The Minister also states in his speech that 40% of the loans are income bearing. Is that correct?

Deputy Brian Lenihan

That is correct.

Deputy Joan Burton

Will the Minister provide us with an analysis of the broad make-up of the 40% of loans which are good loans and the 60% of loans which are distress loans? Unless we get a consolidated list in regard to each broad group of loans and each developer we will not be able to evaluate the Minister's proposals. What the Minister is asking us to do is to trust Fianna Fáil. I do not trust Fianna Fáil and neither do most people on the street. Why does the Minister, on this important day, a day with a price tag of €54 billion, treat us this way and ask us to trust Fianna Fáil? This is not an episode of "The Simpsons"; it is the Dáil. This is not a case of "Trust me I'm Irish", "Trust me I'm a Minister" or "Trust me I'm a TD". This is a day for facts and figures that we can analyse. We need to be able to sit down and make some sense of the proposals the Minister brought before us today.

Deputy Brian Lenihan

This is the Second Stage debate and the information the Deputy has requested will be provided before the end of the debate.

Deputy Joan Burton

I admire the Minister's English. I note the word "developers" has disappeared from the lexicon and that the "developers" have become "borrowers", which brings to mind the Victorian child's book called The Borrowers.

(Interruptions).

Deputy Joan Burton

I am sure there will be people researching the borrowers to see what was said about them.

Deputy Seán Sherlock

They were all very small.

Deputy Joan Burton

Yes, they were all small.

The Taoiseach stated that the purpose of today's exercise is to crystalise losses for the bankers and developers and also stated that this process is our equivalent of a stimulus package. Crystalising the losses for the bankers and borrowers – the developers – is one matter but where is the stimulus package? The Minister made references at the end of his speech to worthy intentions. The late nationalisation of Anglo Irish Bank, in respect of the €28 billion, was nationalisation of the worst kind, forced on the edge of a precipice when nothing else could be done. The managing director of that bank came before us and told us it was a zombie bank. I note that the Minister had nothing to say today in that regard. I presume he would have had something to say had it, if we are in a nightmare movie, become undead. The Minister never suggested it had become undead.

Anglo Irish Bank and Irish Nationwide Building Society account for half of the €77 billion. Perhaps the Minister will tell us how much of the €54 billion they account for? I believe that there is a recognition among all parties in this House that there are different types of banks. Bank of Ireland and Allied Irish Bank are main street banks in which people all over the country lodge their money and from which businesses expect to obtain credit and loans. The folly of the Fianna Fáil approach to the guarantee is laid out for all to see in this document.

We went to the wall this time last year. The Minister stated at that time that we would be first-movers and that this would give us a tremendous advantage and sort of our liquidity problems but it never did, which is the reason we are here today.

Deputy Bernard J. Durkan

That is correct and we will be back again.

Deputy Joan Burton

Judging by the small print, if I am reading the figures correctly, we may be back here again. The Minister has been careful not to provide us with too much of a breakdown.

Will the Minister explain this in a manner which ordinary business people can understand? He stated that it is hoped we will obtain a 10% to 15% premium in terms of long term economic value. I received a letter the other day from a person who is falling behind in mortgage payments and is facing the prospect of house repossession. Does the Minister know what happens when a bank repossesses a house? People who work in the courts are concerned about the level of likely repossessions following passage of this legislation and Christmas. When a bank repossesses a house, either through the courts or by agreement – many repossession cases do not reach the courts as many people simply hand over the keys to the house – it is empowered to sell that house for whatever price it can achieve.

Deputy Damien English

They can take the first offer.

Deputy Joan Burton

The bank does not give the unfortunate person who lost his or her job a 10% or 15% premium for long term economic value. Perhaps the Minister will explain this to the people of Ireland, in particular ordinary couples who may

have lost their homes because, like a developer, they did not manage their financial affairs too well. We all understand how a developer might have been too optimistic and got somewhat carried away.

Deputy Brian Lenihan

There is no premium for any borrower, as Deputy Burton seems to be suggesting.

Deputy Joan Burton

The tables the Minister has laid out indicate that he is offering a premium by way of the long-term economic value of between 10% and 15%. We do not know the breakdown between the five institutions but that is how I have worked it out from what the Minister said in his speech and from the tables. Why do couples or businesses whose properties are being repossessed by the banks not receive a 10% to 15% premium in respect of their long-term economic value? The Minister is proposing that developers—

Deputy Brian Lenihan

Deputy Burton is wrong. Borrowers will get no premium and NAMA will pursue them for the money they owe. I ask the Deputy not to misrepresent this issue.

(Interruptions).

Deputy Damien English

The Minister needs to wake up to reality.

Deputy Joan Burton

Can the Minister tell us why the Bill contains no specific requirement to charge interest to borrowers and developers? There is a provision in various sections of the Bill for the possibility of charging interest, but our legal advisers, who have read the Bill carefully, have pointed out to us that there is no requirement to charge interest. That is not written into the Bill; there is a capacity to do so but it is not a requirement. I am sure the Minister is aware that developers have been walking around town happy in the knowledge that they will, under NAMA, have a holiday from interest payments.

Deputy Brian Lenihan

That is completely untrue.

Deputy Brendan Howlin

Is it in the Bill or not?

Deputy Joan Burton

The power and capacity to charge interest is included in the Bill but not the necessity to do so.

Deputy Brian Lenihan

We will include that provision in the Bill if the Deputy so wishes.

Deputy Joan Burton

I thank the Minister.

Deputy Eamon Gilmore

He should listen to us more often.

Deputy Joan Burton

In the figure of €77 billion referred to by the Minister, the rolled up interest amounts to €9 billion. Although the Minister has not clarified this, that rolled up interest is generally thought to have occurred in the last two or three years. If developers end up securing an interest holiday for some years under NAMA, that alone could be worth another substantial sum of several billions to them. Moreover, when the judges were looking at—

Deputy Brian Lenihan

No interest holiday is planned. That type of misrepresentation is what poisons this debate.

Deputy Joan Burton

We have had senior counsel advise us on what is in the Bill.

Deputy Michael D. Higgins

Where is this issue referred to in the legislation?

Deputy Brian Lenihan

There will be no interest holidays.

Deputy Joan Burton

One of the issues identified as entirely fanciful last week by Mr. Justice Clarke in his adjudication of the case put forward by the Zoe Group was that KMPG

included provision for an interest holiday in its presentation. Where on God's earth did KMPG, a reputable firm of accountants, get this notion of a happy interest holiday or its equivalent for Mr. Liam Carroll? Did it pluck it out of the sky?

Deputy Michael D. Higgins

It is the story on the street.

Deputy Eamon Gilmore

We are getting to the bottom of it now.

Deputy Damien English

The builders are already getting a holiday.

Deputy Joan Burton

The toxic triangle of Fianna Fáil, bankers and developer-borrowers must be dealt with. I will send the relevant sections of the Bill to the Minister. I acknowledge that he wrote to me yesterday to indicate his intention to amend certain sections at the request of the Labour Party arising from legal advice we received on current crisis conditions. I will send him the further legal advice to which I referred. An undertaking by the Minister to amend the legislation in this respect would be in the public interest.

Like one of the characters in Alice in Wonderland, this legislation requires the public to believe six impossible things before breakfast, all of which come down to a question of trust. Do we trust Fianna Fáil and the Minister for Finance to head up the largest property firm on the planet? Do we trust Fianna Fáil not to bail out the bankers and developer-borrowers? Do we trust

the Minister who claimed that the blanket guarantee he introduced for the financial institutions last September would be the cheapest bank rescue in the world? Do we trust a Taoiseach who pleaded that Ireland's economic fundamentals were sound when it was plain to see we were teetering on the brink of disaster? Do we trust a Government that inflated a property bubble, ignored all advice to curtail property-based tax incentives and buried its head in the sand when the house of cards collapsed? Do we trust the Green Party to put the country first or will it stay in office at all costs?

The people are giving their verdict on these questions. We are receiving mountains of e-mails and letters pleading with the Government to change course, because these correspondents know we are heading for disaster. Fianna Fáil's rock-bottom standing in the polls is an indication of the public perception that its trust has been betrayed. People see the modest prosperity they have built up through hard work in the last 15 to 20 years slipping away from them. This is the painful reality for many. People are angry and cannot fathom why the Minister for Finance wants to pour €44 billion into the very financial institutions that hold their mortgages, many of which are now in negative equity. People no longer trust Fianna Fáil on the economy.

During the summer I submitted a freedom of information request in respect of site acquisitions for schools in my constituency, which is also the Minister's. In the last ten years, there has been one gigantic battle after another when 200, 500, 700 or 2,000 houses were built in various developments in Dublin West. Substantial amounts of land were rezoned and it was only after this rezoning that school sites were acquired from the relevant developers. I asked the Minister for Finance and his predecessors and the various Ministers for Education and Science in the last seven years to disclose what Fianna Fáil was paying to developers for school sites. This summer, through a freedom of information request, I finally obtained the information I required. It simply confirmed what I already knew, namely, that the Fianna Fáil way was to pay maxi prices for mini sites. Many children in my constituency are now going to

school in modern, recently built schools, but the playgrounds attached to many of these schools are merely small strips of land on either side of the main buildings.

The developers involved, having bought the land at agricultural prices, then sold the rezoned land back to the Government for an average of at least €1 million per acre. One of today's newspapers includes details of my freedom of information request. This shows that one particular developer, Manor Park Homes – sometimes referred to as King of the Castle, for reasons of which we are all aware – received two tranches of some €5 million for a very small site to house two quite large primary schools. The other developers, Menolly Homes and Park Developments, also received fistfuls and shed loads of money for school sites.

The Taoiseach stated earlier on the Order of Business that nobody on this side of the House said anything about all of this. In the last Dáil, the leader of the Labour Party brought forward a proposal to take this type of profiteering by developers at the public's expense out of the trade in building land. The Taoiseach was incorrect when he held up his hands today and said that nobody on the Opposition benches did anything to address these issues. My party did so and I am sure the Fine Gael Party can point to many measures it offered. It is great fun for the Minister to slag off the Opposition as it gets a laugh from his back benches. However, in the case of other countries which worked their way out of similar problems—

Deputy Bernard J. Durkan

One no longer hears laughter from the Government back benches.

Deputy Joan Burton

When Mr. Bo Lundgren, whom the Government praised to the skies, visited Dublin some months ago he made three points. He suggested one should not pay more than market value, which means we should not pay a 10% or 15% long-term economic value premium. He then suggested that when a country finds itself in a grave position, as Sweden did at one time, the appropriate and best recourse was temporary nationalisation of important institutions. The most important issue, however, was to have transparency so as to enable those in opposition to have a clear understanding of what was happening.

On the nine o'clock news last night I watched bankers walk up Merrion Street and enter the Minister's office to receive a briefing in which they were told the real figures. I felt a sense of rage when I saw the clip given the decision to refuse my requests to the Minister's office, which I made as an Opposition spokesperson yesterday and the day before, that I receive a briefing on an embargoed basis. The Labour Party, Fine Gael and Sinn Féin have always honoured such embargoes. We first received the information when the Minister addressed the House. As we try to solve a problem that risks overwhelming the country, there is something wrong when the Minister chooses to call in the bankers, rather than Deputy Bruton or me, for a cosy fireside chat. On the news last night we saw civil servants pulling down the window blind in the Minister's office when his face came into view.

Deputy Brian Lenihan

There were no bankers present at that stage.

Deputy Joan Burton

The Minister called in a man who stated last year that he would die before he would accept State equity. Last night, we saw the same man smiling for the camera as he entered the Department of Finance.

Deputy Bernard J. Durkan

It is no wonder.

Deputy Joan Burton

He looked like a happy camper. What does he know that we do not know?

What we heard today was not fantastic news for the poor taxpayers and citizens who the Minister will ask to take cuts in services and wages and further tax increases in the next few weeks. Last night, I was reminded of a line from a song, "As he walked along the Bois de Boulogne with an independent air", except the location in this case was Merrion Street. Does the Minister remember the old British music hall song about the man who broke the bank in Monte Carlo? Yesterday, we had some of the men – if I may allow myself a less than worthy comment, all of them appeared to be men – who broke the bank strolling down Merrion Street looking much happier than the Minister for Defence, Deputy O'Dea, and others on the Government benches earlier this afternoon. The Tánaiste does not look happy either. What did the Minister tell the bankers that made them feel happy. Will they get more bailouts? Is there more money to come?

This time last year, the Minister told us his bank guarantee was the best in the world and would work a treat. It did not work and some weeks later he told us a little recapitalisation would be required. Some time after that, he returned to tell us Anglo Irish Bank would have to be nationalised. The Labour Party has offered the Minister a mechanism which would allow him to neatly do the job in hand. In most European countries public ownership has been used in two ways. First, it is used when private capital fails to invest and advance a project – electrification in the early years of this State is one example – and, second, it is used when private capital fails. The banking

industry has failed because it was caught in a bubble concentrated on property.

The Minister referred to Japan. The proposals he laid before us today indicate we are taking the Japanese as opposed to the Swedish route. Newspaper reports have referred to a referendum of Green Party members. It seems party members inclined to the Swedish rather than Japanese model and we all understand the reason they did so. We should recall that when faced with a banking crisis the Swedes temporarily nationalised those banks that were in a desperate position. The Labour Party is perfectly happy to take a similar course of action here.

My party has suggested a remedy to address the fear expressed by some that nationalised banks could be subject to political interference. We propose the establishment of a banking commission to supervise the nationalised banks at arm's length from all politicians. We also advocate that nationalised banks maintain the market disciplines of reporting on a quarterly basis, as they do when they have a stock exchange quotation. Nationalisation in this context would be temporary and would be done for rescue purposes. In light of the blanket guarantee, it would not be possible to proceed with some of the other alternatives that have been put forward. The Minister also announced that the blanket guarantee will continue on a roll-over basis for five years.

It is disingenuous of the Minister and his adviser, Dr. Alan Ahearne, to suggest NAMA will, to use Dr. Ahearne's phrase, wash its face. The tables indicate that the bonds will be six to 12 month bonds which will be subject to an interest rate of 1.5%. One does not have to be an economist to know that as other European countries emerge from recession and their economies stabilise, the European Central Bank will start to gradually increase interest rates. For this reason, the 1.5% rate is only likely to last for between six and 18 months up to a maximum of two years. I repeat my earlier call on the Minister to produce a

business plan which sets out the flows of the bonds and their likely cost over their ten-year life.

The subordinated bonds to which the Minister referred do not constitute risk sharing, as proposed by Professor Honohan. His proposal was that bank shareholders be given a share in NAMA to ensure that the banks share the risk and to incentivise them to make the agency work as well as possible. The Minister, however, is proposing to give subordinated debts or bonds to the banks as part of the overall package. While I do not know how the market will price the bonds of €54 billion, they must, under ECB rules, be available for trading and sale on the open market.

The Minister did not address what will happen to the bonds over their lifetime. To place all of them on the open market at the same time would mean having a huge competitor flotation of Irish debt on the market at a time when the National Treasury Management Agency is trying to raise approximately €1.5 billion per month in bond auctions. We want issues such as this spelled out to enable us to understand them.

I hope the Minister does not believe he has some magical formula at his disposal that will not impose a cost on taxpayers because no one in the bond markets believes that is the case. Once the bonds are issued, they will rank in traders' minds as Irish Government debt. Does the Minister agree?

Deputy Brian Lenihan

Not necessarily.

Deputy Joan Burton

It may not necessarily be the case but it is highly possible. Is it probable?

Deputy Brian Lenihan

Is the Deputy referring to the main bonds or subordinated bonds?

Deputy Joan Burton

I refer to both types.

Deputy Brian Lenihan

Both.

Deputy Joan Burton

The second set of bonds might be discounted for the risk factor and the interest rate might be higher, but once the main bonds are issued they will be treated by the markets as, in effect, becoming part of Irish Government debt. They will be called NAMA bonds.

In his report to the Minister for Finance, the economist Dr. Peter Bacon said:

Creditability is the overriding requirement of any proposal which is going to be successful in addressing banks' capital adequacy issues. This requires firstly that the operation be entirely transparent, that the resulting fiscal cost can be absorbed, and that the Government's prospective debt profile is a sustainable one. Another necessary feature is that NAMA should operate independently and without interference in the discharge of its functions.

Our criticisms can be summarised as follows: NAMA's operations will not be transparent; the resulting fiscal costs cannot be absorbed; and the Government's prospective debt profile, in the way the Minister is doing this, is potentially not sustainable.

In addition, NAMA will not operate independently and without interference in the discharge of its functions. That is because in every line of the Bill, the Minister has the power to direct, commit and order. While NAMA is finding a temporary home under the auspices of the NTMA, the reality is that NAMA is a cuckoo in the NTMA's nest because it is subject to the Minister's rule and diktat. The Bill makes it clear that the NTMA will have no functions whatsoever in the governance, direction or management of NAMA. It can, therefore, be argued that in its current form the Bill departs significantly from the proposals made by its original promoter, Dr. Bacon. For that reason we ask the Government to reconsider the Bill, withdraw it and produce a new Bill that seeks to address the serious issues facing the country.

I am not convinced that the Bill will do very much for the 450,000 people who have lost their jobs. I am not sure how much the Bill will do to release credit into the economy. Like the guarantee this time last year that was supposed to do the same thing and deal with liquidity, I am not convinced this Bill will do so. Therefore, the Labour Party is asking the Minister to withdraw the Bill and bring forward amended legislation, or the Government could bring forward the Labour Party's proposal, which has been used around the world as the best possible remedy.

I will finish by quoting from the report of the International Monetary Fund: "Insolvent institutions with insufficient cash flows should be closed, merged or temporarily placed in public ownership until private sector solutions can be developed."

There have been numerous instances – for example, Japan, Sweden and the United States – where a period of public ownership has been used to cleanse balance sheets and pave the way to sales back to the private sector. The Labour Party believes that is the best solution. It is the only solution that is really possible in the context of the blanket guarantee the Government gave this time last year. We recommend that to the House.

Minister for Communications, Energy and Natural Resources (Deputy Eamon Ryan)

This Bill is designed to get people back to work. Deputy Burton suggested that there might be political advantage to staying in Government at the moment – that it was an easy call to stay in and it would be good for a political party.

Deputy Ruairí Quinn

In the Minister's case, when he contemplates the alternative, it is the only one.

Deputy Eamon Ryan

It is not an easy time in Government—

Deputy Thomas P. Broughan

The Minister sold out.

Deputy Eamon Ryan

—but it is a time when one can do a significant amount of good. One can make effective change for the sake of the common good, particularly if one saw this crisis coming, as the Green Party did. Only two and a half years ago, while in Opposition, I saw the obsession with property taxes. We were told we had to keep house-building going and cut stamp duty. In the seven years I have been a Member of this House, I heard that mantra from just about every party, except the Green Party.

Deputy Eamon Gilmore

Not so.

Deputy Eamon Ryan

In my experience of looking at the kernel of this problem, which party can hold its hands up and say its members have not been engaged in the most reckless and now clearly wrong zoning?

Deputy Eamon Gilmore

We were not.

Deputy Eamon Ryan

It was the kernel of the problem we had. More than any other party, we said it was wrong.

Deputy Joan Burton

The Minister should ask about how it started.

Acting Chairman (Deputy Johnny Brady)

Please allow the Minister to continue.

Deputy Eamon Ryan

What other party but ours saw the growth illusion for what it was? We were told we could have constant growth and that markets would rise forever. We were told that Celtic tiger growth of 7% or 8% per year was ordained to last

forever and a day. What other party but our own went into the last election with the lowest growth expectation?

Deputy Fergus O'Dowd

The Minister went in against Fianna Fáil and now he is their bondsman and their bailsman. He is bailing them out.

Acting Chairman

Please allow the Minister to continue.

Deputy Eamon Ryan

Having seen this problem coming, we are well placed in Government to help the country get out of it. It is a hard time to be in Government, but I believe it is the right time for the Green Party to put its vision into action for it is a time of real change. We will ensure that there is change in the strangely conservative and reckless banking system we have, conservative in that it was obsessed with property as the only area in which it saw enterprise as being possible, and reckless in the way that it let property lending go. We will change that. We are already starting to introduce change in the planning system, which no one else was able to do for 30 years, to end the blatant wrong whereby speculative profit could be earned from a public good, which was the rezoning that took place in that time. We are changing that and can make further changes in our planning system learning from the mistakes that have been made.

More than anything else we can change the spirit of enterprise in this country, to create a new model which is truly sustainable and gives our people not just an economic mantra for growth, but also an economic model which delivers cultural change. It will also deliver a sustainable future that

people can be proud of and buy into not just for economic benefit, but also because it is the right thing to do.

It is a hard time in Government and hard decisions must be taken, which provide no political advantage. They are easily picked up by the Opposition with trite soundbites that do not go into the complexity of the issues, which are hard to explain. It is hard sometimes because the information one has cannot easily be shared when it comes to financial and commercial markets. Many commentators are making comments without being apprised of the broad information one has within Government and which sets the environment within which decisions have to be made.

We have been in Government for the past year when, on a series of occasions, action needed to be taken and decisions made. That was not easy but we have made our contribution and will continue to do so for the national good. It was not easy taking that decision on the guarantee, but I ask anyone else even with hindsight to put themselves in the Government's shoes when there was the real prospect of banks not having money to open the next day. Would they have called the decision otherwise in seeing what they could do to take the country through this difficult time? If they called it another way, what would they do in such circumstances? While that guarantee was a difficult decision and has consequences – we said at the time that it was not without risks – it is one that may be part of a series of decisions that will help us to get out of these difficulties.

Similarly, when it came to the nationalisation of Anglo Irish Bank, we looked into the corporate governance issue and found there were serious problems there. We could not give that bank carte blanche to continue as if there was not a serious corporate governance problem. We have to respect the separation between the political and criminal justice systems. Much as we would like to see people being brought to book for that – being led away quickly in handcuffs, as they can do in America – we had to make those

decisions in a responsible and correct way, putting in the necessary criminal investigations.

Deputy Kieran O'Donnell

The taxpayer is taking over €28 billion from Anglo.

Acting Chairman

Please allow the Minister to continue.

Deputy Kieran O'Donnell

The Minister is incompetent.

Acting Chairman

Deputy O'Donnell should have some manners.

Deputy Eamon Ryan

Yes it is, but in failing to do so the difficulty would be that the failure of one bank would lead to a failure in another. It would lead us to the same problem we had at the start, which would have been a systemic failure in our banking system. It was not easy to make the decision to put money into AIB and Bank of Ireland, but I believe it may be a decision from which we can ultimately profit. We can turn the situation around and get our shares transferred to a price that is much higher than they were issued for back in February or March last year.

Those were not easy decisions but they had to be made. We have to make further decisions. I recall attending the NTMA offices in February when the

country was in crisis. People did not realise the extent of the liquidity crisis. It was a close call daily to have enough money to keep our banks open and to keep Government borrowing coming in. NTMA officials said we had to raise a significant bond, which could be put into our banks to take out the bad assets and to give us time to get this to work. Let us get the patient on to the operating table and then into intensive care before managing him or her over time. I left that meeting with a sense of conviction and urgency. We could not let the country fall and we had to do something significant to prevent it.

I have been absolutely open to other suggestions about how to address this over the past six months. The first time I was in the House following the February meeting I sat beside the Minister for Finance and I said to him that we would have to nationalise the banks. I could not see any other way out because the scale of the problem was so great. However, I have examined the issue over the past six months and while nothing is certain, no one should make categorical statements in the House about what is right or wrong. We are dealing with markets comprising human beings, which react together in different ways, and it is not easy to judge how they will go. All the evidence suggests that if we nationalise the banks, it may be difficult for the country to secure money. The international markets might say there is too much risk in Ireland and they may hold money back or send it to Austria or Sweden or they could demand a higher price because of the risk all being rolled up into one.

I cannot be absolutely certain what is the rate of risk but it is a potential cost and we could pay much higher interest rates that would quickly clock up a significant bill. There is also a risk that if we try to run the entire banking system, we will not do a good job. We can take certain actions in the political system but we would not run the banking system well. As hard as Department of Finance officials have worked over the past year, they do not have the resources to run the system. A proportion of the system must be in the market in order that supervision, independence, expertise and funding is

ensured. There are costs involved. It is easy to think that it will all be sorted through nationalisation and the valuation process, but that would not reduce the cost of capitalisation that would have to be provided. The losses on the loans will still occur and the State would have to pay for every loan. NAMA will not take on loans worth less than €5 million, which are hassle to work out, but they would have to be taken on if the banking system was nationalised.

I totally respect people's right to come up with alternatives but the complex implications and costs behind such decisions must be examined. I have no objection to Deputy Bruton's good bank proposal but if one examines how it would work rationally, it is difficult to see how €2 billion in taxpayer's money could be turned into €30 billion or €40 billion to buy the good assets.

Deputy Damien English

It is not that hard. The Deputy explained it.

Deputy Eamon Ryan

I do not see where they money would come from.

Deputy Kieran O'Donnell

It is new lending.

Acting Chairman

The Minister without interruption. The Deputy will have an opportunity to contribute later.

Deputy Kieran O'Donnell

I am entitled to reply.

Deputy Eamon Ryan

I also have a concern about the delay in addressing the fundamental difficulties in our banks that would result from this proposal. In addition, Fine Gael referred to the possibility of defaulting on subordinated debt. I agree it would not be difficult for us to say to bondholders that they took a risk, which will lead to a loss. However, if one examines what has happened in our banks, that loss has happened. The bondholders have taken a hit of up to 75% in some cases. I do not see where that magical, easy source of funding is in terms of tackling bondholders.

The other alternative proposed is the default option, whereby we default on our bondholders.

Deputy Damien English

The banks would, not us. There is a difference.

Deputy Eamon Ryan

There is a difficulty with this in that even if the State defaulted on senior debt bondholders, it would have to go back to them the next day seeking money for the banking system or Exchequer borrowing and that could be more difficult to secure. One cannot be certain but the Government has to take that risk into account. It is easy on a hypothetical basis to say we should try this idea, but the Government has to take that risk on behalf of the people and there is also the potential risk of having to pay higher rates of interest. Approximately 70% of bonds will mature before the expiration of the State guarantee next September. If we take the default option, there is a risk of a flight of money out of our banks and we will be back to September 2008

again facing the difficulty of keeping money in our system to sustain lending. This would not be done for the sake of the banking system. If banks do not have money, they cannot open on Monday morning and cater for the housewife who wants to draw down money for her family or for the farmer who might want to buy seed. This money would not be for the banks but to keep the system going.

When one considers the various options, NAMA is complex but a number of its features stand to it. First, it will be low cost. The NTMA officials wondered last February whether the State could obtain ECB funding at a low rate because it would be hugely beneficial.

Deputy Damien English

The low rate only applies for 12 months.

Deputy Eamon Gilmore

Will the Minister outline the risks?

Acting Chairman

Allow the Minister to continue.

Deputy Eamon Ryan

The ECB has stated it will provide the funding. It is needed as part of a stimulus. We are in a classic recession as we spiral downwards because of a lack of confidence and, in turn, a lack of spending, which has led to deflation. All the economic analysis says a state must stimulate in those circumstances. It is slightly counterintuitive to spend one's way out of debt and the problems

associated with it, but it is the only way to do so, according to all the macro-economic analysis.

This is our stimulus opportunity but it will not lead us back to the old ways. We are at a fundamental changing point in capitalism, particularly in Ireland. The politics of the past 50 or 60 years was about who owned the resources but this will change to how we sustain and protect such resources, which will lead to a new economy. Keynes said in the middle of the last similar crisis in the 1930s that an economy must be stabilised before it can be reformed. His analysis holds true today. We are adopting a stimulus to get the patient out of the operating theatre and into intensive care for a number of years when we can make the reforms that are needed. However, that must be done with a stimulus package. That cannot be done while the economy continues to deflate and that is at the centre of the NAMA concept.

It is important, having set out on that task and where assets are off the banks' sheets in order that they begin to lend more effectively, that there are protections for the taxpayer. Last week, Deputy Burton said I was referring to an equal mix. I clearly said that for any premium we pay above the current market value, the taxpayer must be protected through two key concepts. First, we own a good chunk of the banking system and I have no problem with us taking a nationalised position in that sense in our banks and, therefore, we are on the other side of the deal for any such premium and we are protected. Then there is the gap on risk sharing. I read the letter written by Dr. Patrick Honohan which the Minister for Finance quoted earlier. He is supportive of this approach and I do not know how Deputy Bruton can say he has not approved it. Dr. Honohan said this was the correct risk sharing policy. It is strong because the taxpayer is paid first and the bank second. That concept is crucial in answering the taxpayer's question about how he can be sure he is not paying over the odds. We want that concept stitched into the operation of NAMA.

Deputy Kieran O'Donnell

That only makes up 5% of the payment.

Deputy Eamon Ryan

NAMA will be a small agency. It is correct that the banks should be used. Tens of thousands of ordinary, decent, capable and enterprising people work in our banking system and we should not throw that away and say that they do not have a role in this. The Government can use their skills and credit management facilities to our purpose. The banks' shareholders have taken a hit, losing approximately €40 billion on shares. Trades unions, farmers and pensioners invested money in these shares. Many people have lost a fortune and no one is protecting the banks and their shareholders. Most of the money was lost, unfortunately, because of the fundamental mistakes made by the banks. That does not mean we proceed on a vindictive basis with our banking system. We will use those bank officials and the skills they have and turn them around to a new form of banking that suits our purpose.

People, including those in our party as much as elsewhere, still have questions about how NAMA will work, which we will attempt to answer. The crucial question concerns how we get a new banking system and how we can have a completely different culture where the obsession about selling property, car or simple loans turns into a banking system that is fit for the purpose we need now, namely, a clean, green energy, enterprise economy. Our banks, as we recapitalise them, will have to set themselves to that task and make their profits there. It may be less spectacular and speculative, but will probably be better over the long run, and it is what they have to do. We have to get them lending and we have to guarantee and show how that will be done as we go through Second Stage and Committee Stage of this Bill.

There must be further certainty around the valuation process, that is, where developers' equity exists or does not exist, which it will not in many cases because a deal might have been done in such a way that it was cross-securitised and the bank did not get the real value stitched down. The figures today are estimates. We are pursuing developers using the credit control facilities of the banks, and others, in a contract way that pursues developers to the nth degree, takes their houses if they cannot pay and gets the security back to the taxpayer. That is something people need to know. People need to know how they will be dealt with—

Deputy Damien English

NAMA is the best idea the Government could come up with.

Deputy Eamon Ryan

—and what are the values. If they are not what we think they are, although a fair bit of analysis lies behind the figures given today, they will be adjusted. It is the valuation on a loan-by-loan basis which will determine what happens.

Another crucial point is that people need confidence that we are not going back to price rises in property. The prospect of spending 25 or 30 years paying off a mortgage was a killer for young people in this country. I got my own mortgage some ten years ago and when they showed me the figures I could not believe how much I would pay off in the end compared to how much I got in the first place. We do not need property markets going up all the time for us to make money. For too long we were obsessed with property and we need to get away from it. The figures set out today include ten years estimating a less than 10% increase in property. Any difference between the interest rate one is paying and inflation will cover that. We are not trying to get the economy kicking again in terms of property prices. Those days are gone.

In terms of the default option, there is a view out there that says "Let the market do it". I heard Deputy Richard Bruton say it today. Should the Government be setting up an asset management agency at all? Are we good or bad at that? I had some thoughts over the past few days when I read articles expounding the theory that the market knows best. I disagree. Our banking system, developers and market were lousy at asset management development. I heard Deputy Rabbitte laughing earlier and saying "Here is the Green Party bit of the Bill where we will put in special schools and parks". I am proud of that new part of the Bill. I am proud of getting planning that puts the school in at the same time as the houses and which does not pay over the odds.

I am proud of being in the Green Party in these difficult times. Deputy Bruton said he did not have faith in our DNA to get the planning right and act like the Swedes do. We are comfortable with our ability to do that. We can do it in a way that helps this country out and have a vision as to how one sticks to proper planning.

Deputy Eamon Gilmore

Nothing will change.

Deputy Fergus O'Dowd

The Minister is with Fianna Fáil. That is the problem.

Deputy Damien English

What about the Minister's colleagues?

Deputy Eamon Ryan

We are in Government not frozen by fear or locked by ideology but we are ready to play our part in getting the country out of a difficult time. We need to give people confidence that we can do it. We need to have confidence in ourselves because we are legislating for ten to 15 years or whatever time it takes to work it out. All sides of this House will manage NAMA in that time. Does Deputy Gilmore believe that the Labour Party in Government could make a contribution better than that of some of the developers and bankers in recent years?

Deputy Eamon Gilmore

It would be better than the Minister's contribution.

Deputy Eamon Ryan

Does Fine Gael believe it can overcome some of the mistakes it made in planning – there have been a lot of them in council after council in recent years?

Deputy Fergus O'Dowd

We would never go into coalition with Fianna Fáil.

Deputy Eamon Ryan

Can it learn lessons from that and take part in the recovery of this country which says—

Deputy Fergus O'Dowd

We would never campaign against them and then join them.

Deputy Eamon Ryan

—we in Government can work out the assets in a way that pays back the taxpayer and gets us good housing? I believe we can. We have grown up as a country in 70 or 80 years. We got it wrong in the past ten or 20 years. We got cheap, easy money after we had been poor for 800 years. We blew it, but we are still a strong and capable country that has grown tremendously in the past 80 years. If it is, as Deputy Burton said, a personal trust, I trust the people of this country, in these very difficult and challenging times, to be able to turn things around and for us to be able to get this to work. That is why I support this Bill and the Minister for Finance today.

Deputy Kieran O'Donnell

Today was supposed to be the Holy Grail but instead we got a document, the bulk of which is already in the public domain. I find it amazing that the Minister, Deputy Eamon Ryan, referred to the fact that he is happy. In the presentation made by the Minister for Finance today there is no breakdown between the institutions themselves and how much capital will be required by the banks in total. I have no doubt that was not given because we would have some idea of the individual banks. There is no detail about what date will be used to determine the market valuation. I note the report itself, in terms of valuation, states that land will be valued at its long-term useful economic value.

How can one have a situation where land which has reduced in value by up to 70% will suddenly be assessed in terms of its long-term economic value? All other assets will be valued at market value. I note page 11 of the document refers to property yields which, I have no doubt, the Government has used for the valuation of the market value of investment assets. It is effectively stated that the property market has bottomed out and the prime yield is at 7.25% compared to 5.56% for a long term average. It has not bottomed out.

We are being told by various businesses that the amount of rent being paid is going down and that the value of commercial property is falling and will continue to fall. The Government is basing the figures on the assumption that the market has bottomed out and prices will now increase. That will not happen. Prices will continue to fall.

I am sorry the Green Party Ministers have left the Chamber. The Minister has too much control in terms of the valuation process. Section 77 states that the Minister for Finance can effectively use adjusting factors and take them into account. I would be very interested to see what analysis the Minister, Deputy John Gormley, would provide in terms of the section that states the Minister for Finance, in looking at the adjusting factors, must examine the analysis presented by the Minister for the Environment, Heritage and Local Government on the extent to which existing land zoning and planning permission is granted and enforce or exceed projected growth requirements.

The Department of the Environment, Heritage and Local Government states that currently land is zoned for residential developed for the building of approximately 1 million units. At 50,000 units a year that is 20 years' supply. It does not add up. The Green Party is bluffing. Its rank and file members feel the same way. There is a 30% haircut. We are not being given a breakdown in terms of the individual banks because if one looks at the situation, the largest amount of loans being taken over are those of Anglo Irish Bank, some €28 billion which makes up 36%.

Are the discounts being skewed towards Anglo Irish Bank so the other banks take less of a write down, and once the process begins will the Government commence the winding-down of Anglo Irish Bank, which is currently being wound down anyway? Some €28 billion of taxpayers' money is going into Anglo Irish Bank, which has not lent a red cent since it was nationalised. The Government wants to put €28 billion into that bank.

I will ask the Minister to give us a breakdown of the write-downs for all the banks – AIB, Anglo Irish Bank, Bank of Ireland, EBS and Irish Nationwide Building Society. He also needs to tell us how much he expects, based on the write-downs, to be required to put into the individual banks. The Minister's claim that there will be an average loan-to-value ratio of 77% does not stand up. The development loans of some of the banks were doubled, in effect, between 2005 and 2006. Once again, that does not add up. The assumptions on which the Minister for Finance has based his projections do not add up. I refer to rental yields, for example. He believes rental yields will fall as property prices rise, but I do not think property prices will rise in the short term.

I would like to speak about the whole issue of risk sharing. Reference was made to Professor Honohan, whose model is based, in effect, on buying assets at their current market value and giving a shareholding to the shareholders in the bank for any upside. The Minister has said that 5% of the total amount will be in the form of subordinated debt. I would like to know about the risk that will be put on the balance sheet of the bank. The legislation says that the banks will not be repaid unless a profit is made. I expect the banks to continue to provide capital. They will have to make some provision if there is a default in respect of the subordinated loans that would stop lending from taking place. I will ask the Minister to tell us what rate of interest will be paid on the subordinated debts. Has agreement been reached to provide for the subordinated debts to be given as security to the European Central Bank when funding is being sought? If that is the case, the repayment of the debt will be guaranteed and, therefore, any question of any form of risk-sharing does not arise. These extremely important issues need to be clarified.

I would like to comment on the references to credit flowing to small business in the Minister's speech and the document he provided to us. He referred to what was done during the previous recapitalisation scheme and to the

Mazars report. There is nothing in the NAMA legislation to compel the banks to lend. I suggest that the banks will choose to hold onto their money, for example, by way of Government bonds on their balance sheets or by way of deposits. They need to increase their deposit-to-loan ratios, which are low by international standards. What measures will the Minister for Finance introduce to ensure that rather than merely finding their way into the banks, funds are loaned to small businesses? We are all looking for a financial system that works. The problem with the system being proposed by the Government is that the only person to take a downside risk will be the taxpayer. From the point of view of the banks, it is a win-win proposal. It gives no guarantee that funds will flow to small business. It is clear that assets are being over-valued. That is why I want the Minister to give the House an indication of the write-downs, in terms of percentage and value, that apply to each bank. I want a breakdown of the €23 billion figure – the haircut of €77 billion, less €54 billion – across the banks. That will clearly show what is going on in the respective banks. I want to know the precise amount the Minister will be required to invest in the individual banks. I want to know if Anglo Irish Bank will be purely in a wind-down situation.

Deputy Fleming has suggested that the Minister should not take part in any appeals mechanism when there is a dispute about valuations. I suggest it is critical that the Minister should have no involvement in the valuation process, from start to finish. It is clear that section 77 of the Bill provides for what can be called the Lenihan law of valuations. The Minister is assumed to have a secret ingredient that enables him to value assets. That leaves the process open to corruption, in the form of the massaging of the amount that needs to be paid to particular developers, or in respect of particular assets. Fine Gael's policy would minimise the cost to the taxpayer by sharing the risk with the bondholders. Its effect would be to ensure that funds flow to small businesses through the proposed national recovery bank. I commend that policy to the House.

Deputy Fergus O'Dowd

This is probably the most important debate to take place in this House over recent decades, perhaps since the foundation of the State. We are talking about the future of the country. I refer in particular to the next generation of this country's citizens. The Government is offering the people of this country despair, rather than the hope they need from this debate. The Government that has been in power for 18 of the past 20 years needs to be changed so that the over 400,000 people who are unemployed can find jobs. We need a competent Government, rather than the incompetence we have faced over many years in this House. As we know from the annual reports of the Comptroller and Auditor General, the Government has wasted a great deal of money on PPARS and electronic voting, for example. The people really want something different, but they are not getting it from the Government and there is no hope of it today. We are getting more of the same, despite the presence of the Green Party in the current coalition.

The Taoiseach said earlier this year that the young people of this country will be the first generation to be worse off than our generation. That is an appalling vista. It was an appalling statement for the Taoiseach to make, although it was not picked up on at the time. Change and new thinking are represented by Deputies Bruton and Kenny and the other members of my party, rather than those on the other side of the House. We want radical changes in the way this House does its business, including the budgetary process. We want the Freedom of Information Acts to be amended in the interests of increased accountability and transparency. We want good government, but we will not get it from the Members on the other side.

I would like to reflect on what the Minister, Deputy Eamon Ryan, said on behalf of the Green Party. I respect him and his colleagues as people. They have been my friends in the past. The Minister, Deputy John Gormley, spoke a couple of years ago about what it was like for this country to be on Planet

Bertie. He has since accepted the post of this Government's high priest, or Dalai NAMA, who offers absolution for the sins of builders and bankers at the altar of Fianna Fáil. The Green Party is in government with the most corrupt party in the history of the State. The Minister, Deputy Ryan, mentioned that legislation is not in place to bring people away in chains. I do not take any personal pleasure from reminding him that a former Minister, who sat on the Fianna Fáil side of the House, was led away in chains on foot of his involvement in planning corruption. Year after year, the tribunals expose the corruption that was at the heart of Dublin County Council. I refer to Frank Dunlop and others who engaged in the rezoning of land.

I cannot understand why the Green Party continues to act as the bondsman who bails Fianna Fáil out. Fianna Fáil's brass band consists of Green Party Deputies and Senators. They are playing footsie with a Government they campaigned against. They said they would not go into government with Fianna Fáil. I cannot understand why they do not want to bring about a change that would offer the hope and the jobs this country so badly needs. This failed and discredited Government has shown a wanton disregard for the ordinary people of this country. It has lined and will continue to line the pockets of the rich, while scourging the poor and ordinary people of Ireland. Over 440,000 people in this country do not have a job. Over 200,000 people have lost their jobs over the past year not because of the international recession, but because of a lack of regulation, the structural deficit and what has happened in the banks. That is because of a lack of regulation, the structural deficit and what has occurred in the banks.

One honourable banker, Eugene McErlean, stood up to the system some years ago by saying that his bank was corrupt and overcharging customers. However, his complaints to the Financial Regulator went unheeded. He has been without a job for the past seven or eight years because he dared to tell the truth and expose a scandal at the heart of our banking system. If he applies for a job with the Financial Regulator, will he even get an interview?

Not on one's life. He has been blacklisted by the system. He was the one man in the banking system who stood up to tell the truth. He represents honour, integrity and decency and if we had more bankers like him, we could have confidence in our banks. Until the entire rotten system changes so that people such as Mr. McErlean are involved, the Green Party will only be speaking rubbish.

He stated in an article published this week that it was not the excesses in subprime lending that wiped out our economy, but a different disease. Little did we realise that the banking patients were already showing signs of terminal illness caused by that age old killer, over lending to the property sector. This was the killer which brought banks to their knees throughout economic history and which spawned expensive and sophisticated risk management machinery so that the banks remained inoculated and vigilant, or so we thought. However, the absence of enforcement was at the heart of the regulatory failure. In Ireland, it was not an issue of a rules versus principles based system but a failure to enforce any rules or principles at all. Earlier this year at an Oireachtas committee meeting, Senator Ross managed to extract an admission from the Financial Regulator that prior to 2008 no enforcement action had been taken against any major financial institution. We now know there was no shortage of issues upon which the regulator could have acted to enforce discipline. Indeed, a recent report published by the consumer panel of the Financial Regulator noted that there should be no distinction between principle and rules. Both are required in any absence of governance because principles in the absence of the enforcement of rules are ineffective.

The whole house has come tumbling down because the Government did not regulate the banks. Fianna Fáil in particular was so close to the builders and bankers that it brought us to this ruinous state. It is like a pyramid scheme in that the builders who got in early made their bucks while everybody else pays. We are all suffering because of poor governance and a lack of

regulation. How many of the 50 top builders involved in NAMA appeared before the Mahon tribunal? If any are condemned, will we bail them out? Corruption lies at the heart of this matter and we need a new way of doing business if we are to offer hope instead of despair and jobs instead of jobseeker's allowance.

A change of Government is needed if these changes are to take place. The Green Party has the option of walking away from Fianna Fáil and causing an election. We need a mandate for the future and people are crying out for change, but they will not get it if this Government continues to stick together. At the margins of our constituencies, people are losing their jobs and their hope because the Government has no credibility. In the name of God, it is time for the Government to go. We must have a general election so that the people can decide. They will choose to get rid of Fianna Fáil and, if Green Party Members want to go down with the ship, let them. This side of the House believes it offers a credible alternative and new hope.

Fine Gael has created a constructive stimulus package, which Deputy Coveney has outlined for the Government. We must offer hope and change. The new green economy which we propose will create over 100,000 jobs given a Government with the determination, conviction and idealism to make the necessary changes. Clearly, however, the Government lacks these attributes.

Minister of State at the Department of Finance (Deputy Martin Mansergh)

I welcome the opportunity to contribute to this critical debate on the establishment of the National Asset Management Agency, which has caused the early return of the Dáil. The NAMA initiative must be set against a background of ongoing pressure on the public finances and continued uncertainty in the financial sector. The Government will continue to take decisive and coherent action to resolve the serious budget deficit, address

the unprecedented slowdown in the economy and restore stability to the financial system. These issues need to be resolved in parallel with managing the public finances and cleansing and repairing our banking system.

From the outset, the Minister for Finance has made it clear that he is keen to engage in a proper debate on NAMA so that the Government can deal with the issues involved as comprehensively as possible. This is why he published draft legislation at the end of July. Since then he has listened to a range of constructive suggestions from various parties and the Bill as initiated today reflects this process. Just over two weeks ago, as part of his consultative approach, he engaged in detailed discussions with the Joint Committee on Finance and the Public Service. He has also stressed that he will continue to listen to constructive comments and suggestions until the enactment of the Bill. However, action is required sooner rather than later if we are to remove the impediments to the ability of financial institutions to lend to the wider economy. The Government's record since the start of the crisis reveals a series of necessary actions taken to stabilise the financial system, protect depositors and safeguard taxpayers' interests. These measures include the guarantee of certain bank liabilities, the recapitalisation of AIB and Bank of Ireland and the nationalisation of Anglo Irish Bank, thereby allowing banks to raise the funds needed to support their operations and ensuring that citizens and businesses can conduct their daily transactions. In return for this measured support, the taxpayer has received payment from the banks. The eventual payment from the banks on foot of the guarantee scheme will be approximately €1 billion and the preference share investments in AIB and Bank of Ireland will yield approximately €560 million per annum at an 8% coupon. It should not be forgotten that remuneration for senior executives and directors has been reformed and banks have had to sign up to new rules regarding their dealings with business and residential customers.

Much remains to be done, however. Anxiety about the impact of risky land and development loans on our banking system continues to create funding

difficulties for the banks. This, in turn, restricts the flow of credit as banks focus their resources on these troubled loans. Each euro that a bank lends to a customer must be drawn from deposits or borrowed by the bank from another source. This, in turn, restricts the flow of credit as banks focus their resources on these troubled loans. Each euro that a bank lends to a customer must be drawn from deposits or borrowed by the bank from another source. Irish banks have relied heavily on foreign financial institutions for funding. However, the uncertainties surrounding the scale of losses on banks' balance sheets have made this liquidity more difficult and costly to attract. Furthermore, as long as the banks remain unsure about the losses that may eventually result from these risky loans and nervous about the adequacy of their capital, they will hesitate to provide the credit which is vital to our economic recovery. Everyone is agreed that a resolution is urgently required because otherwise the economy will remain shackled as it awaits a banking system capable of providing credit to viable businesses and households. The Government view is that the asset management agency approach is the best option for addressing this issue and this view has gradually been gaining public support.

Of course a significant portion of the debate, both today and over the past several weeks, has centred on the risk involved in setting up NAMA and as the Minister for Finance has pointed out, any option for solving the banks' problems involves risk. Around the world it has become clear that the risk is one that the private sector is unwilling to take. It is for that very reason that governments all around the world have been forced to provide various supports to their financial sectors.

Of course there is continually an attempt to make out that this is just a national problem instead of a global problem. Confidence in banks worldwide was shaken by the collapse of Lehman Brothers last autumn and we and other countries are coping as best we can with the fall-out. Obviously, there are particularly national circumstances which, maybe, differentiate the

fall-out, but we are dealing with a global problem and it is misleading the public to suggest that this is something that only this country is facing.

More specific to today's debate, Ireland is not the only country working on a policy solution to deal with the uncertainties surrounding certain asset classes. The US, Germany, the UK, France and others have all put forward schemes tailored to the specific problems faced in each country to deal with impaired assets.

The Government's position is that the problems associated with lending for land and development are best addressed by transferring these assets to an asset management agency and it was only after a detailed assessment of the various options for dealing with these risky assets and acting on the recommendations of expert advice that the Government decided that this was the best approach.

In terms of the reaction to the Government's approach, I should like to mention the subject of interest rates. The interest rate that Ireland pays on its debt is significantly determined by relevant Government policies and it is vital to maintain the appropriate fiscal policies and financial market policies if we are to enjoy the confidence and support of the international markets. Since the Minister for Finance announced in April last the intention to establish a national asset management agency bond spreads above the German benchmark for Irish sovereign debt have halved from almost 3% over ten-year German bonds to now just 1.5%, and clearly the proposal has the support of the international markets. I might also add that the NAMA proposal has been widely supported by bodies such as the IMF and the ECB.

I emphasise in passing what the Minister has already referred to in his speech, the importance of passing the Lisbon treaty referendum from the point of view of maintaining that improvement in confidence. Any uncertainty about Ireland's future position or influence in the EU would be

costly. We cannot afford to be in denial, as some are, about the economic importance of the vote on the Lisbon treaty. We in this small country cannot afford the indulgence of aligning ourselves with British opposition eurosceptic attitudes – of course Britain has already ratified the Lisbon treaty. Membership of the European Union and the unprecedented opportunities it has given to us is the most tangible fruit and demonstration of Ireland's independence, and reinforces and enhances it rather than diminishes it.

As mentioned, there is a risk attached to the NAMA proposal as there would be for any other proposal designed to alleviate the problems with the banks' balance sheets but as the Minister for Finance pointed out earlier, there is another significant risk of which we cannot allow ourselves to lose sight. This is the risk of damage to our economy inflicted by a clogged-up banking system which if not addressed sooner rather than later may inflict pain on the taxpayer through the scourge of even more increased unemployment for many years to come. We must act decisively and promptly if we wish to position ourselves to take advantage of the upturn that will emerge in the global economy over the next few years. Indeed, it seems that such a recovery already may be emerging. There are some tentative signs that growth is returning internationally and over the next few months the durability of this will become clearer.

While the openness of the Irish economy means that Ireland has been badly affected by the global downturn there are grounds for optimism that we can take advantage of any upturn. The economy is flexible, evidenced by the fact that prices and wages are adjusting rapidly. On a harmonised basis, consumer prices in August fell by 2.4%, the fastest rate of decrease in the euro area. In the public sector de facto wage cuts averaging approximately 7.5% have been implemented this year while there is survey-based evidence as well as some limited hard data to suggest that private sector wages are also adjusting downwards. These rapid wage and price adjustments are

helping to begin the restoration of our competitiveness, which is essential if we are to benefit from the global recovery when it emerges.

Many in this House have spoken of the pain being experienced by people hard hit by the recession but it is also fair to comment on the practical "can do" attitudes of many people faced with this crisis. There is a willingness to adjust and to accept, particularly, that those in jobs and with reasonable incomes need to adjust and make sacrifices, and that the quicker we do so the quicker we will recover. I pay tribute to that constructive public attitude.

Domestically, the Government has moved rapidly to maintain the public finances on a sustainable path. Notwithstanding the pressures on the public finances the Government is maintaining investment in physical and human capital at high levels. Infrastructural investment as a proportion of national income will remain high by international standards helping to improve efficiency and reduce costs. Furthermore, the Government will continue to invest heavily in education at all levels, especially at third and fourth level in recognition of the importance of human capital in the global economy. The NAMA initiative will complement and support these other Government policies in ensuring that we are best placed to take advantage of the upswing.

There has been much public debate around the idea that shareholders and bondholders should bear a greater proportion of the banks' losses. With regard to shareholders, the Minister for Finance has made clear that if after the introduction of NAMA the banks require an injection of capital from the public purse then this capital will be in the form of an equity stake. This will dilute the current ownership of shareholders, who have already lost considerable sums and are likely to lose more if their shares are diluted further. With regard to bondholders, a large amount of subordinated debt has been bought back by the banks in recent months at a significant

discount. This has resulted in bondholders taking substantial losses relative to the face value of their bonds.

The idea that all bondholders are natural risk takers aiming at high reward in return for high risk is erroneous. Senior bondholders are not high-risk takers. They are usually long-term providers of debt such as pension funds and insurance companies. They are also the type of investors who buy Government debt and who kept our economy funded.

The Minister has already made clear that the Government does not believe that a culture of default or potential default would serve the best interests of the taxpayer. The ability to roll over funding continuously depends on a fundamental belief on the part of the investor in the viability of the investment and the stability of the institution concerned. The history of the past few centuries in Europe as well as contemporary experience further afield shows the fatal consequences of what might amount to debt repudiation. It is a risk-free suggestion for those not currently in positions of responsibility to advocate such populist solutions. The Government, in contrast, would be responsible for the consequences of such decisions.

The Taoiseach and Minister for Finance have repeatedly made clear the Government's firm belief that as far as possible the banking sector should have a market presence and operate within market disciplines and constraints. Despite this many cling to the illusion being promulgated that nationalisation will address all of the problems facing our banks. This is just not so. The impaired assets still would have to be dealt with and the shareholders in AIB and Bank of Ireland would have to be compensated – all of this before the State puts additional capital in to resolve the capital deficiencies from dealing with impaired assets.

Nationalisation could also impact negatively on financial institutions' own funding. Anglo Irish Bank provides an example of the funding challenges

presented by nationalisation where the Government was required to inject almost €4 billion in capital following serious losses. The concentration risk in association with the policy of nationalisation could force investors to withdraw funds from certain nationalised banks on the grounds that they were effectively owned by the same owner. No other major country is currently adopting a policy of wholesale bank nationalisation. Therefore, if Ireland was uniquely to pursue that option it could from an international perspective be very damaging to Ireland's reputation and attractiveness to international investors. This is a social market economy, not a socialist economy. We should not be sending signals that we are shifting to a different economic system. I understand, having been around politically for a long time—

Deputy Ruairí Quinn

I know the Minister of State did not write that, as he certainly does not believe it.

Deputy Martin Mansergh

—it is clear to me that NAMA is the major political battleground this autumn, or certainly will be until we get close to budget time. The Opposition needs to, and has, put forward plausible alternative solutions which justifies its opposing the Government's scheme. I would do credit to the sense and patriotism of both Fine Gael and the Labour Party in saying that were they to find themselves in government in short order, which is what they aspire to, they would, with very few changes, take over the system on which the Government has elaborated. I am under no illusions—

Deputy Ruairí Quinn

We shall have no option.

Deputy Simon Coveney

The legislation will be in place.

Deputy Martin Mansergh

I am talking about even before the legislation is passed. My belief is an alternative Government would take over and say, in effect, "We can operate this system because we can be trusted, but of course Fianna Fáil could not be."

The Minister pointed out that it was likely there would be institutions in need of additional capital in order that they could absorb the losses arising from the transfer of their impaired assets to NAMA and to maintain a capital position in compliance with regulatory requirements. However, he made it clear that the Government would expect such an institution to explore all available options for raising such capital. This is consistent with the Government's stated policy preference that private market solutions be found and implemented and if this does not prove successful, it is committed to providing such institutions with the necessary level of capital to continue to meet their capital requirements. Its view is that this is a more focused and effective policy than blanket nationalisation.

Deputy Ruairí Quinn

What blanket nationalisation?

Deputy Martin Mansergh

There is a constant reiteration of the mantra—

Deputy Ruairí Quinn

What is the situation to which the Minister of State refers?

Deputy Martin Mansergh

I am sure the Deputy will have an opportunity to reply to me in a few minutes—

Acting Chairman

Deputy Quinn must allow the Minister of State to continue. He will have his chance.

Deputy Martin Mansergh

—and I shall listen to him in silence.

Deputy Ruairí Quinn

This is the great Cambridge tradition of debate.

Acting Chairman

Deputy Quinn, please.

Deputy Martin Mansergh

The mantra is being repeated in the belief that as many people as possible will believe NAMA represents a bailout for borrowers and developers. Such is not the case. NAMA is only in place because a functioning banking system is vital to our economic future. It is not a bailout for anyone. A developer whose bank loan is purchased by NAMA will have to repay NAMA just as he or she would have had to repay the bank. The terms and conditions of such a

developer's business relationships with NAMA entities will not change as a result of the agency purchasing loans from his or her bank. In fact, since NAMA will acquire the loans at a significant discount from the banks' book value, it will be in a position to be more aggressive with borrowers if it deems this necessary. The draft legislation also contains a number of provisions which will assist it in its dealings with developers and ensure every last cent due to the taxpayer is pursued vigorously.

The Government's proposal for a national asset management agency is a prerequisite for economic recovery and the regeneration of employment. It will cleanse the balance sheets of Irish banks, thereby allowing them to focus their resources on discharging their essential role in the economy, the provision of credit. In tandem with other policy initiatives the Government is taking with regard to restoring competitiveness and bringing order to the public finances, it will ensure we will be best placed to take the earliest possible advantage of the economic upswing around the globe and in our export markets. The legislation introduced by the Minister reflects detailed consideration of how NAMA will need to operate in order to protect the State's investment and generate a return for the taxpayer. This is no gamble, but a very carefully worked out proposal. The approval of NAMA by this House is the key to the future of this country, which is why I encourage all parties and Members to support it.

Deputy Simon Coveney

The setting up of a national asset management agency to purchase loans from banks with a book value of €77 billion, secured on property and land currently worth a fraction of that sum, at the supposed discounted price of €54 billion based on an estimated future potential value, is the greatest financial gamble any government has taken on behalf of its people. The motivation of the Government in bringing forward this legislation is genuine, which is to create a functioning system from the current insolvent banking

mess where liquidity cannot be provided for consumers, families or businesses due to the burden of toxic loans the banks have brought on themselves.

While this is, undoubtedly, a public sponsored bailout for Irish banks, I do not buy into the conspiracy theory that it is a bailout for the wealthy development friends of Fianna Fáil. Developers and speculators who have borrowed irresponsibly from careless and morally corrupt banks will continue to owe that debt, whether under NAMA or existing banks. I hope that, whatever shape NAMA takes if the legislation is passed, it will fearlessly pursue those responsible for property debt to minimise losses to the public. However, a growing number of others and I believe the NAMA approach is fundamentally misguided, irresponsible and blatantly unfair to the public which is to be burdened with the consequences of the enormous debt should NAMA fail to realise the value paid for its loan book.

The Government's gamble with taxpayers' money is based on such uncertainty that to support NAMA is like committing other people's money to a bet one cannot afford to lose. It is the uncertainty around NAMA that makes the proposal so unacceptable. Predictions as to whether NAMA will make a profit or loss in decades to come amount to guesstimates at best. The truth is nobody knows or can predict with any certainty how the Irish property market will perform in the next five to ten years. All we know is that we have no functioning property market and there is no reason to believe the position will change any time soon. The Government is committing tens of millions of public resources, albeit in the form of cheap bonds, on the basis of a future hope value for property, without any credible evidence in respect of future property values.

The financing of NAMA on top of the financing requirements of the Government between now and 2010 will massively increase Ireland's national debt levels. Predictions that our debt levels will reach 110% of GDP within a

year are now accepted. The reduction of the national debt in the last ten years of prosperity has been wiped out in 18 months. As Dermot Desmond said today, public sector spending is already out of control. We do not need to bloat it further with a €54 billion spend on NAMA. However, the Government is right about one thing. We must find soon a solution to the banking crisis, as the economy is being strangled by lack of credit and cash.

I want to pose five key questions to assess whether NAMA is the best way to solve the banking crisis. Is it the lowest cost option and the most effective way to minimise losses? Does it minimise the risk to the taxpayer? Are investors and risk takers in banks taking their fair share of the losses? Will NAMA solve our credit and liquidity crisis? Is the NAMA plan the only show in town? The answer to each of these questions is an emphatic no and the basis for the need to oppose this expensive and flawed proposal.

To take the first question as regards whether NAMA is the lowest cost option, last November the IMF finalised a study of banking and property crises in seven countries where this type of approach had been adopted. It stated clearly that government owned asset management companies appeared largely ineffective in resolving the issue of distressed assets, mainly due to political and legal constraints. In other words, the IMF warns that NAMA-type solutions end up costing the taxpayer a fortune because politically directed state agencies are much less skilled and aggressive than private banks in recovering loans from wealthy powerful interests. The Fine Gael proposal is an alternative to NAMA and would force banks to confront their mistakes in order that they effectively would set up their own asset management and debt recovery agencies. Our view is being adopted by more and more countries because it makes sense and only turns to the taxpayer for bailout funds as a last resort after forcing banks and their investors to carry risk and responsibility first.

Does it minimise risk to the taxpayer? Absolutely not. At a time when we will be asking people to pay more taxes, take cuts in their pay and accept cuts in public services because our public finances are regarded as a basket case owing to Government incompetence, we are exposing the State to unnecessary and enormous financial risk. The Minister tells us that if NAMA makes a loss, banks will need to pay a levy to meet that loss. What a joke. If banks are charged a levy how will they finance that levy if not by charging consumers for their banking services? Either way the public will pay for the losses incurred.

Are the investors and bondholders taking their fair share of risk? Absolutely not. Surely a principle should be set at the outset of this discussion that the first losers of crystallising losses in banks due to appalling decision making and lending should be the speculators and bondholders in the banks concerned. When professional investors make an investment involving risk and potential return that goes badly wrong, they expect losses – that is capitalism. What is happening here is a transfer of risk and ultimately a large amount of funds from the taxpayer to bondholders and investors, which is a scandal.

Will this plan put liquidity back into the economy? This is the key question. What are we trying to achieve here? Are we trying to save banks to keep the institutions alive or is it about ensuring a functioning responsible banking system to provide credit and cash to an economy in crisis? The Irish economy will continue to stay on its knees. Businesses will continue to suffer and unemployment will continue to rise if we cannot get liquidity into the veins of the Irish economy. Irish recovery is not about property values – that is a consequence. It is about liquidity and credit availability. If people cannot borrow they cannot spend and businesses cannot grow. I cannot see how NAMA will result in banks lending to businesses, families and consumers. The funding given to banks through bonds will not be funnelled into lending to consumers. It will be used to repay debts owed by banks to other lending

institutions. NAMA will not reduce the banks' loan to deposit ratios. It will simply replace one form of non-deposit funding, interbank loans, with another, ECB funding. NAMA alone fails to solve the most crucial problems of liquidity and making funds and credit available to people and their businesses. Fine Gael wants to inject finance directly into the economy through a new State-owned recovery wholesale bank. This has been achieved in France as Deputy Bruton and other Fine Gael spokespeople pointed out.

Is NAMA the only show in town? No it is not. Fianna Fáil Ministers and, more recently, Green Party representatives have tried to create the myth that we have no option but to accept NAMA. They claim it has been accepted by the markets at this stage and we must proceed. They claim that if we do not proceed we will introduce uncertainty and that the most important issue now is certainty. I do not accept that. This is wrong. Other countries are debating how to resolve banking crises as we speak. We have the benefit of other solutions being implemented elsewhere. Most governments are now moving away from the NAMA approach. Fine Gael's approach of a good bank-bad bank solution has been outlined repeatedly. This is an approach, variants of which have been adopted to fix banks in other countries. The examples have already been given of Northern Rock, Washington Mutual, and Bradford and Bingley.

To those outside this House who are taking an interest in this debate, I say that NAMA is flawed and there are alternatives despite the spin people will hear from the Government. Ireland is in crisis and banking is at the centre of that crisis. We need big thinking from Government, but it has got it wrong here and should be sent back to think again.

Deputy Olivia Mitchell

Sometime during the summer when the real depth and extent of what was being planned began to dawn, the Government must have been taken aback

at the depth and bitterness of the opposition to NAMA. Its representatives tried to explain it away as oppositional politics or a failure to understand what was being proposed. However, it is neither. People understood and understand very well what is being proposed. They know what has happened. They understand that our banks are effectively bankrupt. They know that thanks to their reckless lending into a property bubble their balance sheets are absolute rubbish. They know their assets are propped up by the ECB to the tune of €130 billion. On the liability side, their deposits and bonds are guaranteed by the Government on behalf of the taxpayer. They also know these artificial life supports cannot be left switched on indefinitely. They also know that if either of these supports, on the asset or liability side, is removed then the entire shaky edifice will come tumbling down, and bring down with it the aspirations of this generation and probably the next one also.

They also know that however galling it may be to them we must rescue the banks, they cannot be allowed to collapse. They know we need to keep credit flowing in the economy and that we need a modern functioning financial system. They also know that the solution, whatever it may be, will be risky and expensive. While the figure changes daily, we have at least €90 billion in outstanding property loans. We have not paid too much attention to outstanding personal debt, but I hear from the banks that personal bad debts are at least as high as commercial bad debts. If the economy is to recover, it will not be from a consumer boom. It would make me wonder just how clean bank balance sheets will be, even after we have given them these billions of euro. The cost of cleaning up the bank loan books, while still unknowable, is certainly huge.

The public accept that no matter what course of action is taken to rescue the banks, there will be risks attached. There are risks with our solution, the Labour Party solution and the NAMA proposal. We cannot remove risk but we can and must ensure the risk is shared. The public do not understand why

they must take all the risk of the bad loans while the banks which made those loans and the investors who funded them, are protected. Is it not the very nature of an investment, of risk taking, that good investments make money and bad investments lose money? With the Government's proposal, that principle, that eternal truth since people started trading, has been turned on its head. The banks and those from whom they borrowed for years made successful investments that paid off handsomely. However, when they made bad investments, when they went over the top in reckless lending, the tab is to be picked up, not by those who made the investments but by the taxpayers, their children and probably grandchildren.

With that kind of cushion, that kind of safety net, who would not be a bondholder or a banker? It is the most wonderful profession to be in. If we pick up the tab for the banks in the way that is proposed, what is to stop them picking themselves up and starting all over again? If there is not some pain for the reckless lending, no lesson is learned. The incentive for caution, prudence and responsible liquidity ratios must be at the heart of all banking and risk taking. The Minister told us there would be pain for the banks and that NAMA would not overpay for assets. Of course it will overpay for assets – that was the whole purpose of NAMA. If it does not overpay for bank assets, the banks may as well sell them at the going rate, whenever or wherever they can.

For the banks there is no pain, no penalty, in taking the long-term economic value and discounting it to present day values, if one assumes as the Government does – regardless of what it claims – that property prices will resume their upward trajectory. To be given the future value of an asset in the current economic climate is a sweetheart deal. Every unfortunate house owner who is now in negative equity or anyone trying to sell a house at present would love that deal. They would love the long-term economic value of their house but they will not get it. That will only be available to the banks.

The Green Party, recognising just how this deal is sticking in the craw of every right thinking person came up with what is called risk-sharing – the issuing to the banks of some subordinated bonds. As far as we can gather very few will be issued, but no doubt that could lessen the loss. However, to call that risk-sharing is either to mislead or to misunderstand what is meant by risk-sharing. Any financial investment carries risk, which involves the possibility of gain as well as loss. NAMA offers no possibility of gain to taxpayers. The subordinated bonds may lessen the loss, but will not give them any possibility of gain. In the short term there will be no increase in the flow of credit, and in the longer term, assuming the banks survive – which is by no means certain – and prosper again, the taxpayer will have little or no share if the Minister has his way. It is strange that the Minister maintained all along he would not over-pay, yet today he is defending the proposal by saying it is in the national interest and he has no alternative.

If proof were needed that taxpayers will pay too much for these assets, it is the obscene and unapologetic clamour by the banks during the summer to offer further millions to ZOE Developments, just to nurse it along so that it can avail of NAMA, when we will all pay to bail it out. To copper-fasten the view of what a charmed deal the banks were getting – this drove people demented – a Canadian bank expressed an interest in purchasing AIB, but of course after the establishment of NAMA, when it would have got rid of its rubbish balance sheet and its bad debts. Who would not buy it then? If the remaining good banks are good enough for other buyers, why are they not good enough for the Irish taxpayer? If NAMA is to go ahead – presumably the Greens will let us know at some point whether it will go ahead – then the haircut should be severe enough to reflect reality.

If the taxpayer is footing the bill for all this, it should be by recapitalising on the basis of an equity stake in the banks. Then at least we will own what we are paying for many times over. I do not understand why the Government is so reluctant to take a bank shareholding. Other governments have done so. I

am not talking about banana republics: the UK Government, for example, now owns 70% of Lloyds Bank, that bastion of capitalism, and the shutters have not come down. The world did not end. Of course it is possible, and other governments are doing it. Why, for God's sake, has the Government bought the totally banjaxed Anglo Irish Bank and taken a full shareholding in it, while it shies away from even partial ownership of banks that might recover and repay the taxpayer?

The truth is that it has been led by the nose by bankers since August 2008. It got their version of the problem and it got their preferred solution, and that has dictated everything that has happened since and everything that is planned. It is time to stop listening to the banks and start considering alternatives. The Government must look at the issue from another perspective and think of the taxpayer. There are other ways of dealing with this problem and even of handling NAMA. I plead with the Minister not to gallop down the path he has taken simply because he has started down that path.

The legislation for NAMA sets out seven objectives, but it cannot achieve any of them. It will not get credit flowing, which is ostensibly the whole purpose. It does not protect taxpayers' interests – indeed, the Government has failed utterly to protect taxpayers' interests. We have put billions of euro in already and it has disappeared down a black hole. It may be years before we realise the full cost of NAMA to the taxpayer – although we will see quickly that credit will not start to flow – by which time the Minister and other Ministers may be gone. It is a shocking legacy to leave behind and not one the Government or Ministers want, but there is still time to avoid that legacy.

I wish to speak about the content of the legislation and what is not contained in it. One of the things that bothers me is that there is nothing in the Bill to protect the taxpayer's interest when there is a conflict of interest between how the bank manages its loans and how it manages NAMA's loans. There will be a conflict of interest in this regard, but there is no clarity about

how the taxpayer will be protected. The banks will run rings around us, as they have done before. Nor will they be nearly as robust in collecting debts for NAMA as they will be in collecting their own debts.

I am sorry there is no member of the Green Party present. This party produced a wonderful concession that it wrung from the Government, namely, that it would be an offence to write a letter to NAMA. It is a complete joke to make that an offence, as if NAMA needed protection from the public. The reverse is true. This legislation is giving it enormous powers, beyond anything we have ever given to an organisation, with public interest not involved. There is no accountability; the Minister can increase its powers and allow it to do almost anything. There is no protection for the public whatsoever. If the public cannot write letters to NAMA, who can make representations to it? Who can tell it what is happening on the ground? It is essential that the powers of the Minister and of NAMA are totally vested in the Oireachtas. That is an important part of the legislation.

Deputy John Cregan

I wish to share time with the Minister for Education and Science, Deputy Batt O'Keeffe.

I welcome the Bill and the opportunity to contribute to the debate on it. I must mention something that has sickened me more than anything else during the debate on NAMA. I will qualify my remarks by saying I have the utmost respect for both Opposition parties which have put forward alternatives to the NAMA proposal. I respect that fully. However, many have made the populist remark that the Government is bailing out bankers and developers. I welcome Deputy Coveney's honesty in his contribution when he acknowledged that the efforts by the Government to stabilise the banking system were in good faith and he did not doubt they were genuine. It is refreshing to hear a member of the main Opposition party say this in the

House. It was not just members of political parties but also members of the media who consistently used that line, because it was popular with the public to lay blame at the door of Fianna Fáil and state that we would go on to bail out bankers and developers. These people disgust me with the way they have carried on, and they can hang their heads in shame tonight as this House sits to consider alternatives and discuss a solution to the problem that will give our economy the prospect of growth. I look forward to this happening in the coming months.

This is the most spoken about Bill in the history of the State. This is only natural because it will have an impact on everybody's life. The purpose of the Bill – we are sensible enough to admit this, as Deputy Coveney did – is to restore confidence in the banking system and ensure credit can flow to those in the small business and farming communities and to households. In the last number of months credit has not flowed into these areas, and all Members, in their clinics and advice centres, have met people on a daily basis who give us anecdotal evidence that it is not going to those people who need it most. We are sensible enough to understand that if a solution is not found, whatever it may be, we will be in the same position in 12 months or two years' time, and credit still will not flow to those who need it. We must realise that this is the case.

What has got us where we are? In my opinion, it is greed and a lack of personal responsibility. We saw a disgraceful performance from the Financial Regulator, yet the chief executive sailed off into the sunset, well recompensed, as was the culture of the day. I do not blame anybody for that because there were contractual obligations, I presume, and legal issues. We have a culture in our society whereby people who are entrusted with responsibility to defend the interest of the taxpayer can finish up with a golden handshake and a huge pension and sail off into the sunset. It is time to change that, and I welcome the changes made up to this point by the Minister for Finance with regard to recompensing bankers, encompassing a

reduction in their salaries and limits on bonuses. It is high time this happened, and we must go further, because it has sickened the public to see such appalling behaviour across many sectors.

I welcome the improvement in regulation introduced by the Minister. I also welcome the departure from a single financial regulator to a central regulatory authority combining the Financial Regulator's office and the Central Bank. I welcome the appointment of Professor Honohan and wish him well in a difficult job.

I wish to cite a few examples of reckless banking. An e-mail I received from a constituent who was a director of a building and development company, qualified in project management and finance, states:

We as a company have not purchased development land since 2005, we do an appraisal on every single project in advance of negotiating with land owners and our financiers. Any projects that we looked at in '05/'06 and '07 did not stack up in our appraisals.

In 2007, we were looking at a particular project, we spoke to 3 commercial lenders to provide finance, Bank of Ireland, Allied Irish Bank and Anglo Irish Bank. Bank of Ireland said "no thanks lads", A.I.B. hounded us for the business offering 110% finance, Anglo Irish Bank looked at our appraisal and would only offer finance on a 60/40 Loan to Value [basis].

In my opinion the A.I.B. proposal of financing even in July '07 of 110% was absolute reckless lending practices, especially when the financial crisis was beginning in the USA. This type of financing was commonplace at A.I.B.

That is one example of the behaviour of bankers.

In regard to personal borrowing, a constituent of mine in Newcastlewest managed to borrow €74,000 by way of letters of offer in the post and telephone calls without ever standing inside the door of a financial institution. That is absurd and appalling. The person in question cannot afford to repay that loan or anywhere near that amount. It was wrong to allow that person to borrow that amount of money.

With regard to local banking, many years ago local bank managers were in a position of authority and could approve an overdraft facility, mortgage or a personal or term loan for their customers. That practice changed five or six years ago, not on foot of the banking crisis. The local bank manager cannot approve or increase an overdraft facility or approve any type of personal borrowing but a computer system can spit out letters that are issued to customers who might be with the bank for only six months, advising them that they now qualify to borrow up to €5,000 or €10,000.

Deputy Ruairí Quinn

Why does one need a bank manager?

Deputy John Cregan

Absolutely. That is a scandal. The bank manager lived locally and knew the bank's clientele and the bona fides of its customers, their background and where they worked. No person was in a better position to judge whether a loan should issue to a customer. The banks seem to have moved away from that practice, which was probably considered unfashionable, and have gone to the other extreme. That is why people have amassed huge personal debt which they should not have been able to do.

It is time we learned from our past mistakes. We must all acknowledge that we have a level of personal responsibility. While we can lay blame at the door

of the banks, and rightly so, blame can be also apportioned in some instances to people who decided not to exercise their personal responsibility and were happy to borrow money in the knowledge that it would be extremely difficult for them to repay it.

I welcome the Bill. I am confident the Minister, Deputy Brian Lenihan, will ensure the maximum protection for taxpayers. It is vital that we do. I am pleased the Minister in the Bill recognises that we have to learn from our past mistakes and I am glad to have had this opportunity to make a brief contribution.

Minister for Education and Science (Deputy Batt O’Keeffe)

The scale of the economic challenge facing Ireland is unprecedented. Our banking system is in crisis and businesses and households across the country are struggling. In response, the Government has devised a carefully considered solution to our financial sector difficulties – the National Assets Management Agency, NAMA. In simple terms, NAMA will help banks to access cash to lend to businesses which, in turn, will stimulate our severely damaged economy.

The NAMA Bill contains a number of important changes that will allow the agency to achieve its goal of stabilising the banking sector and restoring the flow of credit to businesses. At the same time, NAMA minimises risk to the taxpayer. Without a functioning banking sector, viable businesses and households across the country cannot access credit. This would mean more businesses would close and more jobs would be lost. As a result, our ability to deliver public services and invest in public infrastructure would be undermined.

The bottom line is that banks are struggling to access funding because of concerns at home and abroad about risky property and development loans

on their balance sheets. Due to the size of the economy, Irish banks are heavily reliant on accessing funding from foreign financial institutions. Getting this funding is proving difficult and costs are high. As a result, Irish banks are restricting credit.

NAMA will clean up the balance sheets of Irish banks and allow them to focus on their core business. It will strengthen and improve their funding position so they can lend to viable businesses and households. Some commentators have asserted that NAMA is about bailing out bankers and property developers, but that is not correct.

Contrary to what some have claimed, NAMA will not buy the loans with money that could have been spent on public services. NAMA will issue bonds to the banks, essentially IOUs. The interest on these bonds will be paid out of the income NAMA receives from the good loans it takes over. Proceeds on loan repayments and property sales are expected to pay off in full the bonds that NAMA issues. These bonds can be exchanged for cash on world markets and at the European Central Bank. In other words, tens of billions in cash from outside the country will be pumped into our economy through the banking system. That will stimulate our economy.

Above all, the Government's primary concern is the welfare of the people. The Government is determined to put in place provisions to protect the taxpayer. There will be no easy terms available to borrowers from NAMA. They will be expected to pay the full amount owed by them in exactly the same way as they are obliged to pay their banks now. For borrowers who will not or cannot repay their loans according to the terms of their contracts, NAMA will pursue these using all the commercial and legal means at its disposal to obtain the maximum return. In addition, this Bill contains a specific provision to outlaw lobbying of NAMA in respect of any of its decisions. Any involvement by borrowers in the development or completion of properties acquired by NAMA will be strictly controlled.

Our common cause must now be the future of Ireland and her people. One would expect that this should not be a time for political parties taking populist positions. The stakes are far too high for that. Yet, the Opposition parties continue to treat the economy as the plaything of political expedience. Fine Gael is at odds with two of its own former leaders on an approach to the banking crisis. Perhaps that is no surprise when one considers the party's proposal for a wholesale bank which, oddly enough, would not come into play until next October when the bank guarantee scheme runs out.

I have news for Fine Gael. Ireland cannot wait 13 months before trying to clean up the banks and kick-start the economy. Fine Gael's magic wholesale bank would supposedly get €2 billion in capital from the State and be able to borrow €40 billion from European Central Bank. This is not practical because the European Central Bank demands collateral. The wholesale bank would have to raise deposits and these almost certainly would be funds withdrawn from the current banks. Alternatively, the State would have to provide the wholesale bank with between €50 billion and €60 billion in bonds. There would be no benefit to the economy since the banks have access to the European Central Bank.

Fine Gael wants to default on the bondholders of Irish banks, but the so-called professional investors to whom the party refers are pension funds, insurance companies and other long-term savings institutions that provide funds to banks here so that they can in turn lend to businesses and households. Defaulting on the providers of money to Irish banks would dry up funding. Those are the same providers of funds that are lending to us to finance our budget deficit and to keep State services running.

I wish to deal with the Labour Party's plan also. Labour wants to impose a 50% discount on the loans being transferred to NAMA. It has picked that number—

Deputy Ruairí Quinn

We propose 70%.

Deputy Batt O’Keeffe

—because a discount of that size would wipe out the capital base of the entire banking system and the State would then have to recapitalise the banks in full.

Deputy Ruairí Quinn

It will have to do that anyway.

Deputy Batt O’Keeffe

That would achieve Labour's ideologically driven goal of a fully State-owned banking system. Labour's approach is in violation of EU Commission rules since the Commission insists that valuations must be determined following a due diligence examination of each loan. Under NAMA, each loan will be valued one by one. The Commission does not allow a flat discount across all loans as Labour proposes.

The Government has ruled out the full nationalisation of Allied Irish Banks and Bank of Ireland on the basis of information from due diligence or stress test exercises undertaken in March and other information on expected future bank losses indicating that full nationalisation is unnecessary. Once an institution is fully nationalised, the State must sustain the institution. Anglo Irish Bank is a case in point. The State is obliged to ensure that the minimal capital is maintained in that institution. If that is not done, the institution ceases to be a bank and all the liabilities become an immediate charge on the State and the taxpayer. If Allied Irish Banks and Bank of Ireland were fully

nationalised, shareholders would have to be compensated with cash from the State. At current share prices, that could mean a €5 billion cash payout. Where does the Labour Party propose the State finds that money? That is before a single cent of new capital has been injected. Full nationalisation would inevitably result in the downgrading of Ireland's sovereign credit rating and the State would be obliged to pay higher interest rates on its borrowings.

Under the Labour Party's plan, banks would be removed from the stock market. One can ask how the Labour Party would propose that the State would sell off its stakes over time and when it would do so. How would fully nationalised banks perform in the interim? The Labour Party cannot cost its proposal because once the State assumes total responsibility for the financial sector, the cost could be endless.

Deputy Ruairí Quinn

I wish the Minister knew as much about the Government's proposal as he seems to do about ours.

Deputy Batt O'Keeffe

This is high-risk strategy that would inevitably cost taxpayers even more in the end and would undermine confidence in the banking system and the country as a whole.

Political interference in lending policy has a disastrous history worldwide. Full nationalisation is the nuclear option. It is no coincidence that the only country to have fully nationalised its banking system during this crisis is Iceland. The Labour Party would do well to remember that, instead of playing fast and loose with our economy. The Minister for Finance said that within the legal boundaries in which it must operate, and notwithstanding its commercial remit, NAMA could have a role in creating balanced and

desirable places to live with obvious benefits for sustainable social values. He said that NAMA could seek to facilitate the Department's of Education and Science and the Environment, Heritage and Local Government where these bodies have requirements, for example, in terms of schools and parks, which facilitate the creation of desirable developments that encourage vibrant sustainable communities. He said that such bodies could be given first option on disposals for a limited period and although they would have to pay the reasonable market price required they would at least be given the first mover advantage. As Minister for Education and Science, I very much welcome that proposal and I look forward to pursuing it.

Our mission is to have a healthy banking system that meets the needs of the wider community. If we do not act now to free our banks of their higher-risk loans, we will not be in a position to benefit from the economic recovery that appears to be emerging in the United States and in Europe. Without a healthy and functioning banking system, our businesses and service providers will not be able to grow and develop their products for our main markets. If we do not stand ready to take advantage of a global upturn as an open free-market economy dependent on foreign direct investment and international capital flows, we will lose market share and more jobs. Now is the time to act. The time for talk has passed. The Government will not shirk its responsibilities to this generation or those to come.

Deputy Ruairí Quinn

With the agreement of the House I wish to share time with Deputy Ferris.

An Leas-Cheann Comhairle

Is that agreed? Agreed.

Deputy Ruairí Quinn

I was elected to this Chamber in 1977. Twice in my time in this Chamber I have seen Fianna Fáil bring this country to the brink of bankruptcy – in 1979 to 1980 and in the past year and a half. This Bill is coming from the same party with the same political ethos and the same recklessness that precipitated the previous bankruptcy threat and the current one. It is no wonder that the Irish economic crash is much worse than in any other member state of the European Union. The reasons are because of the scale of the property-driven inflation that was whooped and cheered on by Fianna Fáil. What is extraordinary is that we have yet to hear one word of apology from the Taoiseach, Deputy Cowen, or his predecessor, or one word of admission that they had got it wrong but that they are trying to correct it. We heard nothing of that nature this afternoon during Leaders' Questions. We have not got a sense in any way that they are responsible for the mess in which we find ourselves.

We have a complete and comprehensive financial and economic crisis. It is not just about the banks nor just about NAMA. What the Labour Party has proposed, in contrast to what it has been caricatured as offering, is something along the following lines. We need to restore credibility in the economic system and in those who are responsible for managing the financial services sector in particular if we are to attract and retain the type of investment we have so far enjoyed. Our proposal to do that is to establish a financial banking commission headed up by an Irish person of international reputation, such as Niall Fitzgerald, for example, but significantly also with members such as a retired German central banker or a retired American central banker, people from outside the shores of this island, because not every investor in the world has an Irish grandmother and looks favourably on the old sod. We need to restore credibility and objectivity.

We then need to turn to the Central Bank and Financial Services Authority of Ireland. I hold the view that all the members of the board of the Central Bank should be asked to submit their resignations at this point because they were

part of a regulatory system that failed. I welcome the appointment of Professor Honohan. His international reputation is precisely what we need to restore credibility, but he should be assisted with a new board.

I wish to deal with the issue that has been the subject of so many deliberate political slurs and misrepresentations coming out of the Pravda section of the Fianna Fáil press office. It is no coincidence that the same line was used in the speeches of the Minister for Finance, Deputy Brian Lenihan, the Minister of State at the Department of Finance, Deputy Mansergh, and the Minister for Education and Science, Deputy Batt O’Keeffe. I repeat what the Labour Party has said: if one pays a reasonable price for the distressed assets, the likelihood is that one will have to recapitalise the two main retail banks, not all the banks, just the two main ones, so they can get back to the high street business of facilitating business and liquidity. There is nowhere in any Labour Party proposal for the words “blanket nationalisation”. We have never referred to 100% nationalisation. We are talking about temporary public ownership, in the region of 70% plus, which we will probably have anyway.

The banks will stay quoted on the Stock Exchange. The shareholders will not have their shares confiscated. The toxic loans would be taken out and some form of NAMA set up, whether a bad bank as in the Fine Gael proposal or based on our system. Some form of NAMA is required to separate non-performing toxic loans from the balance sheets of the banks so the main banking activity can continue.

The boards of Allied Irish Bank and Bank of Ireland must complete their exit. So far, their chief executives and chairpersons have left but why stop there? We need new and properly appointed boards and the Opposition should be consulted by Government in this regard. I welcome the limited consultation we have had so far. The new tier of management that would come to the fore in those two banks – which currently have good management through the ranks – would be told they would receive no bonuses and no excessive

salaries, that it is our intention to refloat 100% onto the market those banks temporarily in public ownership and that their bonus will be 5% to 10% of the realised value. This would be the incentive to management to achieve the best result.

We would say to the shareholders that we are sorry that they have, as a result of mismanagement of the economy under Fianna Fáil, lost their shirts and that dividends have been suspended. Most people who invested in bank shares did so not for capital appreciation of those shares but for the dividend income they provided. Those people who have held bank shares for the past 20 or 30 years did so for dividends, income that provided the most secure kind of pension available to them at that time. They have already lost this. We would say to the shareholders that we hope to again realise the value of these banks in seven to ten years and that the Irish state will take back in the realised profits only that amount of money invested by the taxpayer through the Government in the first instance and that whatever is left will be theirs. While they may not ever see that money their children or grandchildren will see it. That model has been used successfully in many other countries.

Let me nail another Pravda lie from the Fianna Fáil press office about political interference in a State-run, State-owned financial institution. We have one from the stable of the Department of Finance. The life assurance companies in this country got into trouble in the 1930s and had to be bailed out and rescued. They were rescued by a State-owned entity, Irish Life, which was 95% plus owned by the State. The shareholding was held by the Minister for Finance and there was a residual private shareholding left over from the chaos that was rescued by the State payers. Nobody ever suggested that Irish Life was subject to political interference in the same way that the ESB, Bord na Móna or CIE had been subject to political interference. There was no corruption of the commercial mandate from Merrion Street and rightly so. When that bank was subsequently successfully privatised over a number of years shareholders ended up getting money.

Our biggest problem is that there are two people to be protected in this bail-out. This is a bail-out of one kind or another whether the discount is 30% or 70%. I welcome to the House the Minister, Deputy Ó Cuív, with whom I debated this point on a television programme some time ago. We both agreed that the critical point is the price. We now know the critical price. It is a 30% discount as distinct from what the High Courts were saying to Mr. Carroll should be a 70% discount. Whether the discount is 30%, 50% or 70% – which would be disastrous – the question is whether the taxpayer is to have a degree of subsidy in all of this. I agree that some form of subsidy is required but what does the taxpayer get under the NAMA proposals currently before us? We get nothing. If we are in the seat whereby we receive part or temporary ownership of whatever the amount happens to be and the banks are refloated then the taxpayer gets that gain.

Senator Share Ross said this afternoon on radio that it was significant that the stock market in Ireland was closed when the Minister was making his speech to the House. He predicted that when the markets open tomorrow the banks will be excessively happy and the market will have bounced up their value. That is a critical assessment from the only qualified stockbroker in these Houses. This gives us first sight of what will be the impact of the NAMA route as currently pursued by the Government.

None of us has been here before. The Government has proposed a solution that we do not believe is a great solution and we have outlined alternatives. However, following conclusion of the Second Stage debate we will have an opportunity on Committee Stage to get right whatever proposal is now on the table. I hope that the arrogance and tribal negativism that we have witnessed so far from Fianna Fáil will not close its mind and ears to the expertise in this House as referred to earlier by Deputy Burton. Sadly, listening to the contributions from the Taoiseach and the Minister, I will not hold my breath.

This issue is too big for any of us. The Government will not be in office following the next election. That issue has effectively been decided and the Government knows that as well as us. Let us get this right so that we do not have to pick up the pieces after the general election is called.

Deputy Martin Ferris

I thank the Labour Party for the ten minutes allocated to me. I take this opportunity to thank the Leas-Cheann Comhairle for the opportunity to register Sinn Féin's complete opposition to the NAMA proposals.

I must hand it to the Government, it is doing a great job robbing the people of this State. White collar crime is taken to a different level when the collar in question is the Minister for Finance. We discovered today that NAMA will cost the Irish people €54 billion, which is approximately €12,000 for every man, woman and child in the State and that is before recapitalisation. Let us use the recent example of the Mr. Carroll case and the High Court's prediction that €77 billion worth of loans would be lucky to be repaid at €20 billion. This State is paying €54 billion for them, which is robbery. However, we are told by the elected representatives sitting opposite, it is a necessary robbery.

The banks loaned too much to a small number of profit-mad, greedy developers and the Government cheered them on with billions in tax-breaks. Now, our banking system has collapsed. Capitalism brought about the downfall but we cannot let capitalism sort itself out. The taxpayer must step in with €54 billion and bail out the banks, the developers and the most corrupt Government in the history of the State. We can privatise profit but we must socialise debt.

We cannot put any of this down to ineptitude. This Government knows exactly what it is doing to the people. Fianna Fáil has a tradition of stealing from the taxpayer and then lying about it. Former Taoiseach Charles J.

Haughey is a classic case in point and former Taoiseach, Deputy Bertie Ahern, had his own little misdemeanours. However, it is not alone those at the top of the party but councillors up and down the land who are up to their necks in sorry, seedy and greedy affairs. The words "brown" and "envelope" could have been invented for the Fianna Fáil Party. We have witnessed rezoning with brown envelopes handed over to corrupt councillors to ensure developers got their way. However, what they have done to date is nothing compared to what they are planning to do. Not only are they robbing this generation, they are robbing the next and future generations.

The long-term economic value is a particular coup. Why would we want to push land prices up to the same level they reached at the height of the boom? How did these prices affect our competitiveness? If land does not reach these prices the State may well have shelled out more than €20 billion too much. A figure of €20 billion, which is a conservative estimate, would pay for a world-class free health service, an education system and a social security system. It is enough money to build a country to which tourists would want to come and in which business wants to invest. However, to Fianna Fáil and the Green Party, that figure is just a number. Who cares, they will not be in government when it all comes crashing down, which is the great thing about politics and postponement. The leader of the Green Party, Deputy John Gormley, and the Taoiseach, Deputy Brian Cowen, will be living comfortably on ministerial pensions when the real impact of NAMA hits.

As stated earlier, it is the next and future generations that will pay for this. Sinn Féin has been calling all summer for a referendum on NAMA. One cannot put through a Bill of this magnitude without asking the majority of the people of this island if they support it. We all know why Fianna Fáil will not hold a referendum. They know asking people to vote "Yes" to NAMA is like asking turkeys to vote for Christmas. We are calling on all Deputies and Senators to sign the petition we have circulated calling on the President to initiate a referendum on this proposal. This issue is of such importance that it

is imperative we ask the people what they want. Opposition Members, Independents and Government backbenchers will have the opportunity to step up to the mark by standing up to bankers, developers and the Government in its proposal for NAMA. To do otherwise is to capitulate to the powerful players in the banking system.

There is a way out of the black hole Fianna Fáil, together with its friends, the developers and speculators, has dug for this country. That way out is via nationalisation of the banking system. It would cost money but less so than NAMA. Moreover, taxpayers would then own the banks and they could be cleared out once and for all. It would be a people's banking system. Sinn Féin is not interested in temporary nationalisation as proposed by the Labour Party. We cannot advocate handing back the banks to the very people who ruined them. How can one justify allowing those who brought the country to its knees to remain in charge? Instead, we propose the creation of a State bank which would foster the economy and give ordinary citizens the right to a bank account and a secure and affordable mortgage. The reality is that the Government knows it may need to nationalise the banks in the wake of NAMA. Its protestations to the contrary are another example of how it has lied to the people. It is merely dragging out the cronyism for as long as possible. Private property contractors will get to tender for the land taken over by NAMA. The key question is what price the latter will accept.

The Green Party's additional bows and ribbons do nothing to protect the taxpayer. That party should be ashamed of itself for what it is doing, with its Members desperately clinging onto their jobs while they hang the people out to dry. For many years I sat in this House listening to Green Party Members making constructive proposals. Now they have reneged on everything for which they stood. They are pathetic. They should take five minutes out from pretending to save the planet and try to save the people who put them in this Parliament.

Sinn Féin is opposing NAMA because it is ultimately an attempt to legalise corruption. It is all about taxpayers picking up the tab for Galway tent politics. It is not only a step too far, it is a step off the cliff. The Government has pushed the people as far as they can be pushed. It is no longer a Government of the people. Its support has collapsed and it is now a dictatorship. NAMA is devised primarily to bail out bankers and developers. It was this same Galway tent cartel that exploited the economy for personal gain. It is the same cartel which, with the oil companies, has exploited our national resources for profit. The same cartel will now, through NAMA, exploit ordinary, decent taxpayers.

The people do not support Fianna Fáil's solutions to the economic crisis it caused and they do not want the Government. Fianna Fáil no longer has a mandate. If it proceeds with NAMA, pushes through all the cuts recommended by an bord snip nua and delivers the budget everybody is expecting, it will have ruined us. It should put itself to the test by calling an election and seeking support for its policies, but I have no expectation it will do so. Like the Green Party, Fianna Fáil will try to cling to power for as long as possible.

Throughout the State, viable small businesses are striving to survive and continue providing employment for ten or 15 people in their locality. Small businesses are the largest employers in rural areas but they are being driven to death's door by the refusal of the banks to provide credit. These institutions are the landlords of the 21st century. They oversee the very system that has contributed to the wreckage of the economy but are now begging the Government, via the taxpayer, to bail them out. It is ordinary people who must pay for the mistakes made by those in charge of the banking system.

Mortgage holders throughout the State, many of them young couples, are dependent on two incomes to meet their loan repayments. The same bankers the Government proposes to bail out are evicting people from their homes, taking ownership of their properties and then leasing them back to

the former occupants. That is what is happening throughout the island. NAMA proposes to protect and bail out these banking interests. We propose instead that the system be nationalised. It is the people who should own the banks and these institutions must help those in need and deserving of support. That is the only way in which we can hope to restore the economy and have a country that reflects the ideals of those who founded it.

Minister for Community, Rural and Gaeltacht Affairs (Deputy Éamon Ó Cuív)

Tá áthas orm deis a fháil cúpla focal a rá maidir le NAMA. Tá an-bhéim á chur ar chúrsaí luachála, chomh fada agus a bhaineann siad le NAMA. Sílim gur cheart dúinn breathnú ar an cheist leathan lena bhfuilimid ag plé inniu – an chaoi ina fheidhmeoidh an tír muna bhfuil córas baincéireachta éifeachtach ann. Cé go bhfuil an córas baincéireachta thar a bheith tábhachtach don phobal agus don eacnamaíocht, caithfear a rá go bhfuil an eacnamaíocht ann don phobal. Má bhreathnaímid ar ghnáth-dhaoine, mar a dúirt an Teachta Ferris, tá sé thar a bheith tábhachtach don dream atá ag iarraidh gnó a dhéanamh muna bhfuil córas baincéireachta ann. Cén chaoi is féidir le daoine gnó a rith i gceart gan córas baincéireachta? Muna bhfuil córas baincéireachta ann, níl aon chreidmheas ar fáil do ghnáth-dhaoine atá ag iarraidh teach a thógáil nó airgead a fháil le haghaidh míle cúis.

Dar ndóigh, tá daoine ag déanamh dearmad ar rud eile – muna bhfuil an eacnamaíocht ag feidhmiú, ní bheidh muid mar Stát in ann seirbhísí a chur ar fáil don phobal. Le cúpla seachtain anuas, tá an-chaint faoin gcontúirt a bheadh ann dá mbeadh an luacháil ró-ard – d'fhéadfaimis roinnt billiúin euro a chailleadh de bharr sin. Creidfimid go bhfuil sé sin clúdaithe sa Bhille. Beidh contúirt i bhfad níos mó ann muna bhfuil an eacnamaíocht ag feidhmiú. Má tá difríocht de €3 billiún i gceist in aghaidh na bliana, ó thaobh foinse ioncaim de, idir an eacnamaíocht a bheith ag fás agus gan bheith ag fás, táimid ag caint mar gheall ar difríocht de €30 billiún i gcistí an Stáit

laistigh de thréimhse deich mbliana. Creidim go bhfuil figiúr den chineál sin coimeádach. Má fhágaimid rudaí mar atá siad, beidh an bearna idir an chaoi ina bhfuil rudaí agus an chaoi ina bhféadfaidís a bheith má leanfaimid le NAMA i bhfad níos mó ná €3 billiún in aghaidh na bliana. Mar sin, nuair atá NAMA á scrúdú againn, ní chóir dúinn na cúng-socruithe airgeada nó baincéireachta amháin a scrúdú. Caithfimid breathnú ar an tionchar a bheidh acu ar an eacnamaíocht. Caithfimid ceist a chur orainn fhéin – cé acu is fearr ó thaobh an eacnamaíocht, séirbhísí poiblí agus postanna de? Nach bhfuil sé níos fearr, ioncam a bhailiú don Rialtas agus Stáit chun a chaitheamh ar sheirbhísí, ná airgead a thógáil ar iasacht? Dá bhrí sin, tá sé soiléir go gcaithfimid rud éigin mór agus ceart a dhéanamh.

Ba mhaith liom rud eile a léiriú sa díospóireacht seo. Cloisim an-chuid caint ar bhaincírí, ar bhainc agus ar airgead na mbainc. Go minic, ní dóigh liom go bhfuil daoine ag smaoineamh ar cé is leis an chuid is mó don airgead atá sna mbainc. Shílfeá gur le dream beag daoine an t-airgead ar fad atá sna mbainc, ach ní mar sin atá. Má rachfaimid go dtí foinse na billiúin euro a bhíonn á láimhseáil ag daoine áirithe sna margaí éagsúla, gheobhfaimid amach gurb é mo chuid airgead agus do chuid airgead atá i gceist. Duine ar bith a bhfuil taisce acu sa bhanc nó sa chomhar chreidmheasa, caithfidh siad a thuiscint go gcuirtear na dtaisc ar fad le chéile. Déanann na chomhair chreidmheasa infheistiú i mbainc eile. Dá dteipfeadh ar na mbainc, cá mbeadh an t-airgead sin ansin? Bíonn daoine ag caint mar gheall ar bannaí airgeadais. Tá níos mó eolais ag pobal na hÉireann ar na mbannaí seo ar fad anois ná mar a bhí trí nó ceithre seachtain ó shin. Céard iad fhéin, áfach? Sa chuid is mó, is iad na bannaí na fréamhacha a cothaíonn do phinsean nó d'íocaíocht árachais. Cuirtear na cistí ar fad le chéile istigh sna comhlachtaí pinsean nó árachais agus déantar iad a infheistiú. Má theipeann ar na mbainc, gheobhfaidh gach mac máthair sa tír seo amach go tobann go bhfuil sé thíos leis go pearsanta.

Táimse den tuairim go bhfuil an oiread fíabín ar dhaoine breathnú ar na droch-baincéirí seo. Ní miste leo cé a ghortóidís sa bhealach. Tá sé cosúil le buama adamhach a úsáid chun duine mí-ionraic a scriosadh, agus a rá gur cuma sa diabhal go bhfuil na céadta míle maraithe agat. Is mar a chéile é sa chás seo. Mar sin, ní díogh liom go dtuigeann duine ar bith a deireann nach gá córas baincéireachta a bheith ann an tsúnámaí a leanfadh teip ar an gcóras sin.

Before discussing the detail of the various proposals, it is important to examine the fundamental issue of what action needs to be taken. Those who advocate the nuclear option of allowing the banks to go under and those who argue that we do not need a banking system do not know who are the ultimate owners of much of the money in the various funds and bonds and do not realise the vital importance of the banking system in day-to-day business. We must have a functioning banking system. As Deputy Ferris noted, many small business owners cannot secure access to credit. Deputies will also be aware of individuals who cannot access credit, including young people who wish to purchase a house, and others who require loans for various purposes. It is important, therefore, to reflect on the importance of a functioning banking system.

We have heard a great deal in this debate about who takes the risk. The banking system is discussed as if it functioned in isolation from the society in which we live. Let us compare the status quo with a scenario in which the banking system is functioning again, credit is flowing, business can be done and jobs are created. Let us consider this scenario solely in terms of the increase in tax revenue we would secure. Leaving aside the social and human anguish of proceeding on the current path, the economic impact would be to starve people of cash, thus ensuring that business is not done and a large number of people remain unemployed. It is my conservative estimate that the lift we would get restarting the economy would result in an annual increase of €3 billion in income to the State from taxation. With tax revenue

this year expected to be approximately €33 billion, an increase of €3 billion or 10% would be relatively small, particularly when one considers that annual tax revenues were running at €55 billion at one point. Nevertheless, over a period of ten years, the increase would amount to €30 billion. Every other risk associated with our proposal pales into insignificance when set against the risk of doing nothing.

One hears a great deal about bankers and the banking system. I do not know any bankers, not even my bank manager, or developers. I keep away from such activities and lead a simple life, which has been devoted to community work. To imagine, however, that bank bonds and so forth relate solely to rich people's money is to fail to understand the nature of the banking system. I have often noted the large sum of money held in our credit unions. I believe it stands at €7 billion or €8 billion. When a large number of people save a little, the money accumulates and enters the banking system. Anyone who would even contemplate allowing the entire system to fall is proposing Armageddon for ordinary people whose deposits, insurance premia and pensions payments would be wiped out.

Those who work in the offices of financial institutions move large sums of money around the system through various investments. Much of this money consists of the pension contributions, insurance premia and deposits of ordinary people. Those who are not required to assume responsibility may speak banally about getting bankers but forget that they propose to use a nuclear missile to hit their target. They do not care whether 100,000 or 200,000 people are washed away in the tsunami that follows.

Having examined the various options, while I do not agree with the Sinn Féin proposal to nationalise the banks, at least it emanates from a principled position, one which would have been popular in the 1960s and 1970s. It reflects a view that in some way a nationalised bank would become a people's bank. I do not believe that would happen, even in the case of full

nationalisation, because such a bank would be subject to the same conditions and lending practices in the money markets as any privately owned bank. The NAMA solution provides for public interest directors of banks and offers an incentive for ordinary business. This mix provides the best of two worlds which will serve our society and economy.

From a philosophical point of view, I empathise with the idea that the people should own the banks but have less understanding for the Labour Party policy. Having examined it from every angle, I just do not get it. People are forgetting our Constitution, the nature of our society and property rights. If we were to nationalise the banks, independent assessors would have to be appointed and full market value would have to be paid for the nationalised institution. Such a proposal does not make sense. If, for example, the banks were worth €4 billion, what would be the point of borrowing €4 billion at an interest rate of 4% to buy bank shares? Such a move would not do anything for bank liquidity because all the money would go to shareholders.

I am not an expert in constitutional law but the notion that one could appropriate a bank on the premise that shareholders would have some of the action at some point in the future does not stand up to scrutiny. It is important in this debate that people are honest enough to admit if their proposals do not stand up to robust challenges.

I examined closely the Fine Gael Party document which proposes, among other things, to move money between good and bad banks. The endgame of its proposal appears to be to use a clever sleight of hand to make the subordinated loans worthless. Somebody has to take a hit to get the balance sheet right. If it is not the taxpayer, through refinancing the banks, it must be someone else. This would be very handy if it was possible.

All of these issues can be teased out. Having followed the debate for months and having been privy to Cabinet discussions on the issue, I believe the

Government proposal is a robust, effective and legally sound solution to the problem. As regards valuations, I believe that when NAMA is finished it will at least break even and probably make a profit. It is difficult to see that property prices will fall in real terms over the next ten years. The up-valuation is only equivalent to an average, modest consumer price index rise in that period.

There are those who say it would be glorious if property prices continued to fall. Obviously property prices went way beyond where they should have gone, but those who say it would be great if they kept going down are forgetting all those who bought houses in the last five years and the disaster they would face if that scenario came to pass. People who see ever falling property prices as a happy ending are ignoring a huge section of our population who borrowed money to buy houses and whose negative equity would be enormous if property prices were to fall further.

As with everything in life, there is a happy medium. One can price up the real value of a house and there is such an intrinsic value. If one wants to get the real price of a house fairly accurately, one should ask a person who built a one-off rural house what the bricks, doors, windows and other bits cost and what labour cost, paying the fair, standard rates in our society. To that, one must also add a modest amount for the site, which is the real intrinsic price. If it falls much below that, the only people who will gain are those with a lot of cash resources who know that inevitably, sooner or later, property prices will come back to the bricks and mortar cost. They will be able to make a killing in the certainty that there is a real price for this, not just some imaginary one.

The Government provided figures today and it was bound to do so. If assets are appropriated there will be performing loans. We must remember that we are buying the loans secured by the assets. There seems to be an idea that we are buying properties, but we are not; we are buying the full loan. If one has a loan and one pays it fully to the bank there is no question of losing a

property. It is in the case of default that one's property comes into question. Time and again we have stressed that properties will be valued individually, item by item. I am sure that in some of these portfolios there will be different types of securities and each one will be valued on its real value, taking a long-term valuation on those for which it is appropriate to do so.

We hear the example of a field in some town in the midlands or the west that was zoned for development and where enough houses have been built for the next 20 years. It may have been bought at an exorbitant price, but if there is no chance of development, the Minister and Government spokespersons have said repeatedly that there will be no question but that it will be valued at its real price, i.e. the agricultural value.

It is important to play straight and fair here. In any debates I have had with Deputy Quinn on this issue he has been straight and up front. He has been responsible in the way he has dealt with it. I hope that when we get to Committee Stage, all sides of the House will work together to try to make the legislation even better. We must try to see if there are flaws in the Bill and, if so, improve it.

The idea of publishing a draft Bill was to give plenty of time to people to analyse, debate and examine it, and come up with suggestions. Many changes have already been made, not to the fundamental principles which are absolutely sound, but to the details. I look forward to a constructive debate with people addressing what everybody agrees is one of the huge challenges we face in the future. I have no doubt that within this Bill we have the wherewithal to create a proper, functioning banking system that will serve our people well. That will allow the economy to regrow. There are still huge opportunities in our land. In time to come it will be seen that Ireland's response to this crisis was constructive and imaginative and solved the problem. I hope it will do so in a relatively short period.

Deputy Michael Ring

I wish to share time with Deputy Varadkar.

An Leas-Cheann Comhairle

Is that agreed? Agreed.

Deputy Michael Ring

What happened today in this House reminds me of the day five friends of mine left Westport. They were going to Kerry and on the way the Galway races were on. They did not have much money and were going on holidays. When they went to Galway they got a tip for a horse and decided to put all this money on it. I am sorry to say, however, that the horse did not win. That is the risk that taxpayers will have to put up with now. This country has the Department of Finance, the Financial Regulator, the Central Bank and other agencies which were fully staffed with taxpayers' money. They all received benchmarking and were well paid. A year ago the fraud squad investigators went into Anglo Irish Bank and now, almost a year on, not one person in the Department of Finance, the regulator's office or the Central Bank has lost his or her job. When I saw the regulator's performance on "Prime Time", I was not surprised to see what happened with the banks in this country. One would wonder who appointed him. I do not know how he was appointed but I am sure people will tell me. Where were the Department of Finance, the regulator and the Central Bank when this scandal was going on?

In America, the man who defrauded taxpayers was brought in in handcuffs and is now in jail. Our guys, however, are out sunning themselves abroad with taxpayers' money and we now have to bail them out. It is not the first time we have had to bail them out. Does the Minister remember when Anglo Irish Bank invested money in America? This House had to be recalled and the

taxpayer had to bail it out again. Does he remember what happened to the PMPA? We know who it supported. We had scandals in the insurance industry and the taxpayer had to bail it out.

Deputy Éamon Ó Cuív

The Deputy is forgetting ICI. His party bailed it out and did not charge it for doing so. His memory is failing.

Deputy Michael Ring

I did not interrupt the Minister. Next year, the Galway tent will be open again. It will be a tent because there will not be much building going on in the country. We will have all the Fianna Fáil builders in thanking the Minister, Deputy Ó Cuív, and the Minister for Finance for saving them. This is what this Bill is about. It is not about taxpayers, it is about Fianna Fáil builders who have subscribed to that party for the past 20 years. I have been listening to the Minister and the puppets who come in with speeches written for them by the Department of Finance—

Deputy Éamon Ó Cuív

That is not so.

Deputy Michael Ring

—telling us that this is not bailing out the Fianna Fáil builders, but it is doing so.

A lady and her husband attended my constituency office on Monday. They got a site from their family and had saved €120,000. They wanted €80,000 to finish the house but sought €100,000 because they wanted to decorate it.

They went to three banks in my town and not one would give them either amount. They had put €120,000 into the house themselves. They had a site which, at worst, was worth €50,000, giving them a property worth €170,000 and they could not secure €80,000 to complete their house.

We are bailing out bankers and I hope, for the sake of the country, that this works. I have no faith in Fianna Fáil and I have less faith in the Green Party because they have lost their way in office. They did not lose their way today or yesterday but they did so over many months. The people have made up their minds. They want to get rid of Fianna Fáil. They want the party out of government because they are sick and tired of the way they have been treated. They are sick and tired of the way the party has looked after the economy. They are sick and tired of the way Fianna Fáil has looked after its friends in every section of society. They were fixed up in every corner that they could be fixed up and the State can no longer afford to pay them. An bord snip nua had to be brought in because Ministers did not act the way they should have in government.

As a Front Bench spokesperson for Fine Gael, I ask the Minister and the Minister for Justice, Equality and Law Reform and Department of Finance officials to let us know what is the up-to-date position regarding all the investigations into Anglo Irish Bank, Allied Irish Banks and all the other banks before the legislation is passed. I want that on the record of the House and I want to see people arrested for what they did. Banking is a simple and basic business. Bankers take in and loan out money but they loaned more than they had and they put their own shareholders and the country at risk. We are the laughing stock of Europe and the world because the Minister and his colleagues, including former taoisigh and Ministers for Finance, went out to Europe with their chests out telling their colleagues that we had the best economy in the world. We had so much money we were the most well off people in the world. It was the greatest false economy there ever was and

when Deputies Bruton, Burton and others tried to point out and identify what was happening in the real world, nobody in the Government listened.

Have we qualified people in the Department of Finance? Are they qualified in commerce? Do they really know what is going on in the world? Why could the Central Bank, the Financial Regulator and the Department of Finance not see between them that our banking institutions would bring the country down? They did nothing about it. The country could collapse and I do not want that to happen. Some banks do not have a penny to lend and yet again hard-pressed taxpayers are keeping bankers in their jobs. Some taxpayers could lose their jobs while others will have to take a reduction in their wages and work harder than ever.

Nothing will have changed in five years' time if NAMA works. Another Government could be before the House in ten or 15 years bailing the same bankers out because we did not learn. I would love to say the banks should be nationalised but while I would love to see them be allowed to collapse, that would damage the country. However, I want to see some of the people in Anglo Irish Bank jailed for the activities that took place. They were supported by Fianna Fáil and Ministers and I want these people to be named and shamed. Who drew down loans from these banks? It was a scandal. I have learned one thing since I entered politics, which is that there are two laws in the country. There is one for the poor and one for the rich. When I was elected to the Dáil many years ago, a man pulled me aside on the street. He said, "You'll learn one thing, sonny, when you go into the Dáil. It doesn't matter whether you are Fine Gael or Fianna Fáil. When it comes to the rich, the poor will pay and the rich will always look after the rich". That is what is happening. The poor of this country will have to bail out the rich. Developers have put their property into the names of their wives or children or have put it outside the State and I am glad the Minister for Finance said it can be taken off them and the taxpayer will not be paying for their bad loans while they save their good properties.

I want the banks dealt with. I want some action in the Department of Finance. The regulator should have been sacked a long ago while the Central Bank failed to do its job.

Deputy Leo Varadkar

I refer to the comments of the Minister for Education and Science. He either misrepresented or misunderstood our policy. I do not propose to go into the detail but if he wants to sit down with me—

Deputy Éamon Ó Cuív

I would like to hear an explanation of the Fine Gael policy.

Deputy Leo Varadkar

Both the Minister for Education and Science and the Minister for Finance mentioned two former Fine Gael Party leaders, Alan Dukes and Garret FitzGerald. I respect both of them but they have not been right about everything in their careers and they are not right about NAMA. We have heard very little about the views of former Fianna Fáil leaders on this legislation. They have been silent but I am not surprised. The party's previous leader, Deputy Bertie Ahern, was bankrolled personally by stockbrokers and developers and Charles Haughey was bailed out by the banks. Through NAMA, Fianna Fáil is repaying the debts of its former leaders.

In approaching this debate, we must ask what are the common principles and what we are all trying to achieve. First, we want to minimise the risk to the taxpayer in any policy to save the banks. Second, we want to repair the financial system in order that credit can flow again to small businesses, homeowners and consumers. NAMA will not protect the taxpayer. We were informed earlier that the book value of the loans is €77 billion, which

includes €9 billion in rolled up interest. It is not that long since Sean FitzPatrick told us the banks did not roll up interest for developers. The real haircut is 20% and not 30%, as the Minister suggested earlier. He also admitted the long-term economic value of the loans is €7 billion higher than the market value. It is at least that amount because the figures also include the equity put in the developers and it remains to be seen how much is phantom equity. It may be found that the cost to the taxpayer could be substantially higher than €7 billion and it could be as much as €16 billion.

The Minister's calculations are based on two massive gambles. The first is that property prices have bottomed out, having fallen 47% since the market peaked and this is where they will sit. That is untrue. Next year will be characterised, according to the Government's projections, by increasing unemployment, decreasing wages, which it has promised to cut, and higher ECB interest rates. On that basis, there is a strong probability property prices will continue to fall. It is at best a wish for the Minister to base his calculations on a 47% fall from peak but it is definitely a gamble. All the Government's projections fall if property prices decrease further. They could fall 1% a month over the next few months but once interest rates increase, prices will fall again and that will destroy the Minister's projections.

The second gamble is the projection that NAMA will break even every year. This is based on two arguments, one of which is that 40% of the assets to be purchased are performing. That probably is the case but the Minister is assuming they will continue to perform once they have been taken over by the agency and once interest rates begin to increase next year. That is a false assumption. The Minister is assuming that because 40% of the loans are performing now, they will continue to perform next year. That is a big gamble. In addition, the entire exercise is based on the 1.5% coupon that is being charged for the NAMA bonds.

Where are the Government's projections? Where has it factored in the likelihood that interest rates will rise? Everyone accepts that the ECB will start increasing interest rates in the middle of next year. Where are the Government's projections in this document showing what will happen when ECB rates start rising, how much more those bonds will cost us and how many of the developer loans that are now performing will cease to perform? Why are there no projections for that? They are none because the Government knows if that happens NAMA fails and not only do we have to pay it all back in ten or 15 years, but NAMA will take a loss every year which we also have to pay for.

We also have risk sharing. We were promised by the Green Party, with the usual pomp from the Minister, Deputy Ryan, that we would have equal risk sharing. Whatever equal is, it is not 5%. Maybe he left out the zero, but 5% versus 95% is not equal risk sharing; it is just a fig leaf for the Green Party.

Will NAMA get credit flowing to business, homeowners and people who want to buy? I do not think it will because the mortgage books are also in trouble and there will be 17% unemployment, falling incomes and rising interest rates next year. Businesses are going out of business and the business books are in trouble too. The personal loan books are also in trouble. Irish banks owe €100 billion to foreign banks. They financed their lending for the past four years not from deposits but from the €100 billion they borrowed from foreign banks and institutions. That must be paid back.

They will also be obliged to rebuild their capital ratios. A 4% or 5% tier 1 capital ratio will not be acceptable – it will have to be 8%, 9% or even 10%. All the extra money the Government is giving to the banks will stay in them not because of badness but because, given those realities, they will not be able to lend money. When it is clear that money is not flowing into the economy, in February, March or April next year we will come back to the idea of a national recovery bank, because the only way we will get money flowing

into the economy is by setting up a new clean bank and not relying on giving €7 billion to the zombie banks and thinking it is enough for them to increase their capital ratios, write down all their losses on developer loans, cover their losses on mortgage and personal loans and deal with their foreign liabilities.

What happened with foreign liabilities is amazing. In 1995 the banks' foreign liabilities were approximately 10% of GDP. In 2003 it was still 10% of GDP, but between 2003 and 2007 it went up to 50% of GDP. That is the amount the Irish banks borrowed from overseas to lend into the Irish economy and whether we like it or not it all has to be paid back and a de-leveraging of €100 billion from the Irish economy will be painful and NAMA will not fix that problem.

I have some questions which have not been addressed in any statements. How long does the 1.5% coupon from the ECB last for, when does it start to rise and where are the Government's projections for it? Regarding the breakdown of the haircut by each bank, we know how much in terms of loans the Government will buy from each bank but we do not know how much the write-downs are. For all we know, the write-down for AIB or Bank of Ireland might only be 5% or 10%. Meanwhile, the write-down for Anglo Irish Bank might be 60%. If that is the case it puts a very different reflection on the Bill. We do not know how long it will unwind over. What has the ECB said to us about the repayment of the bonds? Surely they are not perpetual. At some point there will have to be some unwinding of the bonds and when will that be?

The Minister kindly expressed his concern about people in negative equity, which includes people like me who bought in 2004, tens of thousands in my constituency and hundreds of thousands of people in my age group. What is in this Bill to assist people who are in negative equity? What is in it to assist people who are facing debt deflation for the first time since the 1930s, whereby a rising share of their falling income is being paid to the banks, the

new landlords whom the Government want to bail out? What does the Government have to say for them? It has nothing to offer.

Regarding associated loans, 36% of the loans referred to in the document are not land or development loans but are associate loans. What are they? Are they personal loans for developers? Are they loans to finance their mansions and horses? The largest section of loans the Government is buying is associated loans, then land and developments and I want to know more about them.

I would also like to know what proposals the Government has for staff in the banks. The banking sector will shrink and there will be redundancies. What provisions will the Government make to ensure they are done fairly and the workers are properly compensated and looked after?

We had a very good performance today from the Minister, Deputy Brian Lenihan. He is a very good barrister who is very well trained at making a very bad case seem good and he did that well today, but it does not change the fact that this is based on sand. As most people in the Chamber will know I am a capitalist and I believe in capitalism, the free market and enterprise. It is the best way to generate wealth and it is then the job of Government to ensure it is spread fairly. However, I do not believe in capitalists any more because they seem to want socialism for themselves. When they start up they want subsidies, when they are making profits they want to be protected and when they fail they want to be bailed out. That is what this is. It is socialism for the super rich.

As politicians we need to defend capitalism against the capitalists. That is the key question which comes before us today. This is NAMA, it does not protect the taxpayer and does not get credit flowing to businesses or homeowners. It merely saves the banks from nationalisation. It must be asked if it is really worth just that.

Deputy Seán Ardagh

I am pleased to have the opportunity to commence my contribution to this debate on NAMA. It is important to look at the record of the Minister for Finance on initiatives he has taken in banking. One such initiative is the guarantee that was given. We know up to now more than €1 billion has accrued in fees to the State as a result of it. The situation regarding bank recapitalisation is far better. The figures given in the NAMA document were eye-opening and it was the first time many of us got such inside information on the finances of Bank of Ireland and AIB.

The market capitalisation of AIB today at 5.30 p.m. was €2.3 billion and the share price was €2.63. When the Minister for Finance took up the redeemable convertible preference shares along with the warrants of 8%, there was an option to convert those shares into 25% of the issued capital. If one took AIB and Bank of Ireland on the basis of their share prices today, there would be a profit of €1.3 billion just from converting preference shares into equity. Along with that, the Minister is getting 8% of a coupon. The recapitalisation was a significant investment and a very good deal.

Deputy Varadkar mentioned the 1.5% coupon, asked how long it would last and when it would be unwound. The banks will get a significant amount of money—

Deputy Leo Varadkar

Does the Deputy know the answer?

Deputy Seán Ardagh

—that they will have at 1.5%.

Deputy Leo Varadkar

He does not know it.

Deputy Seán Ardagh

At this point in time, according to the green book, they have available certain amounts of money for SMEs and mortgages. The amount drawn down under those headings in both banks is substantially less than what they have available at this point in time, without the availability of cheap money. When the 1.5% coupon becomes available the banks should, in order to continue in business, be chasing loans of all descriptions. Those who this year could not get a loan for a car, washing machine or furniture will see the banks going hand over fist to give out such loans. We all know that savings are at a record high. Consumer confidence and spending are needed. This proposal will bring about significant confidence among everyone in Ireland, particularly consumers. It will also lead to significant spending which will result in more employment, more activity within the economy, more taxation and an improvement in the budget figure, which is the bottom line.

The haircut that will apply to AIB will account for €7.2 billion of the €24 billion total. According to the bank, it has made provision for €2.2 billion. Therefore, there is a shortfall of €5 billion in its provision. Its core tier 1 capital is approximately €10 billion or €11 billion. As €5 billion can be taken from that figure as a result of NAMA, further private or Government capital will be needed by the bank. I hope the private capital people will come in and avail of the opportunity available. There is market capitalisation of €2.2 billion for the whole bank. As it will be difficult to secure the remaining €5 billion, the Government will have to go in again. I hope it will be able to do as good a job as it did with the recapitalisation deal and that the interests of the taxpayer will be well looked after.

An Leas-Cheann Comhairle

I remind the Deputy that, in accordance with an order made by the House earlier today, his contribution will resume tomorrow after the party leaders have contributed to the debate and Private Members' business has concluded.

Debate adjourned

The Dáil adjourned at 9 p.m. until 10.30 a.m. on Thursday, 17 September 2009.

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- **[Messages from Seanad.](#)**
 - **[Back to table of contents](#)**
 - **[Written Answers.](#)**