

# HOUSES OF THE OIREACHTAS

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## AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

### JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

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*Dé Céadaoin, 22 Iúil 2015*

*Wednesday, 22 July 2015*

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The Committee met at 9.30 a.m.

#### MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

ing, proposing to suspend it for 30 minutes. People just might want to get a cup of coffee or a sandwich or something like that, okay. We'll say 7.45 p.m., if possible, okay. Thank you.

*Sitting suspended at 7.19 p.m. and resumed at 7.45 p.m.*

### **O'Flynn Construction Group - Mr. Michael O'Flynn**

**Chairman:** I now propose we return back to public session. Is that agreed? And in returning to public session, this is our fourth session of today, the Committee of Inquiry into the Banking Crisis is now resuming in public session. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off.

At our next session we will hear from Mr. Michael O'Flynn, founder, O'Flynn Construction Group. This is one of several sessions in which the inquiry will focus on relationships between property development companies and their principal financial institutions. Mr. Michael O'Flynn founded O'Flynn Construction in 1978. The O'Flynn Group operates a number of businesses in Ireland, the UK and mainland Europe. The group's activities cover property investment, development, construction and the provision of student accommodation. The group, as well as its personal borrowings, have now exited from NAMA. Mr. Flynn, you're very welcome before the committee this evening.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2) (l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect to their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that the only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of this inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have submitted a witness statement. This is before the committee, will be relied upon in questioning and form part of the evidence of the inquiry.

I now ask that the clerk will administer the oath to Mr. O'Flynn, please.

*The following witness was sworn in by the Clerk to the Committee:*

Mr. Michael O'Flynn, O'Flynn Construction Group.

**Chairman:** Thank you very much, Mr. O'Flynn, and, once again, thank you for your co-operation with the committee this evening and if I can invite you to make your opening remarks, please.

**Mr. Michael O'Flynn:** Thank you, Chairman. Good evening all and thank you for the

opportunity to address the committee. As you know from my submission, I have been in the property development and construction business for over 37 years. During this time, I worked through the recession of the 1980s and the currency crisis of 1992-1993. At all times, the O'Flynn companies paid every creditor and repaid all borrowings in full plus interest. Our business model was always soundly based. From 1978, the business grew, as did the mix of skills within the organisation, including development, planning, project management, asset management and construction, investment and finance. Development was the origin of the group and was always at the centre of our activities. The key focus for development was to take a total management approach from inception to completion, only building product where real demand existed.

As a group, our plan was to create a strong and valuable organisation which would be broadly based and diversified in so far as is practical in terms of locations, business and economic risk. At the peak in the mid-2000s, the O'Flynn Group employed over 1,000 people directly and indirectly. In the statement to the inquiry, NAMA CEO, Mr. Brendan McDonagh, and not Mr. Frank Daly, as mentioned in my submission to you, indicated a view that diversification reflected an absence of strategy amongst developers. I disagree. Rather, diversification is a recognised and appropriate risk management strategy operated by businesses of scale.

By the end of 2008, the group had fully evolved to a diversified model in terms of its asset type and geographic base. In addition to our development business in Ireland, our varied businesses extended across nine jurisdictions, encompassing commercial, retail, industrial and residential and included a very successful student accommodation business, senior living accommodation and investment properties.

My relationship with banks - I can only speak from my own experience with the banks, that experience runs contrary to some of the generalisations I have heard reported at this inquiry about easy lending which was relationship based and where the loan was up to 100% or more of the value of the asset in some cases. This was certainly not the case in relation to the O'Flynn Group. The cash balances of the O'Flynn Group were always strong and were applied in property acquisitions. Even the years 2006-2008, the average amount of our cash balance was €76 million. In our property acquisitions, a mix of our own cash and bank borrowings was generally applied, with the exception of joint venture arrangements where a lender sought a much higher return based on profit share. In such cases, funding was provided by the lender and time, skills and expertise were provided by us and profits were shared in an agreed proportion.

To be very clear, our borrowings were not speculative. They underpinned specific developments with a strong balance sheet and a credible and strong cash flows to support them. I never issued personal guarantees to any lender in relation to the business and the reason for this was our track record, but also the strength of our balance sheet and by extension, the level of equity which we were bringing to each project. In approving any loan application, the bank had to satisfy itself of the ability of the borrowing company to repay the loan and the security available. I have never provided any form of personal guarantee to a bank to secure an O'Flynn Group loan.

The O'Flynn Group way of operating was to identify a projects that made financial sense and then go about the financing, not the other way around. From time to time, O'Flynn Group companies are required to provide guarantees for the liabilities of other group companies and where we believed it was the right thing to do, those inter-company guarantees were provided.

The global financial crisis - access to finance is the lifeblood of developers in the way raw materials are to a manufacturer. When the global financial crisis hit, that supply was denied to

us. Regardless of how strong a company's balance sheet is, if you and your principal customers are dependent on banks for access to cash, you will not be in a position to continue business in such circumstances. I am hugely appreciative and grateful to the State for providing liquidity to our business when the banks were in the extraordinary and unforeseen position of being unable to provide finance. It was the only time in my 37 years in business that I have ever seen a business environment like this and I hope I will not see it again in my time.

The role of NAMA - while the concept of NAMA was well-intentioned, I believe it was destined to realise a less than optimal return to the State. NAMA was intended to save the Irish banking sector but in fact hastened its demise and along the way added to the burden on the Irish taxpayer. There were alternative and better options, and Lombard Street Research, a macroeconomic consultancy company based in London, outlined those options in a report which was submitted by the Construction Industry Federation to the Department of Finance, a copy of which I have provided to the inquiry.

I believe there are four reasons why NAMA has and continues to fail to maximise the return to the State. Firstly, the time that it took to create this new organisation, staff it, resource it, and deal with the European Commission on competition matters, decide on a valuation mechanism, value the loans on a loan-by-loan basis and ultimately transfer the loans, which was costly. The concept of NAMA was first mooted in April 2009 but it was April 2010 before NAMA was able to even commence the review of business plans of the first tranche of borrowers. It led to continued financial uncertainty over an extended period. Secondly, I firmly believe that from the outset NAMA lacked experience in many important areas but most notably in the area of asset management and development. This had very significant consequences in terms of early action to enhance the value of the assets under management. Thirdly, NAMA failed to distinguish between developers who knew what they were doing and had a track record in business but who were thrown into turmoil by the global financial crisis, and part-time developers or people who had gone into the development business without having any understanding of the fundamentals involved. While in NAMA, I presented a comprehensive, professionally assisted business plan designed to ensure that the O'Flynn Group could continue in its current form and that all debt could be repaid over time at par. We applied very significant resources to the preparation of our business plan, which extended to some 2,000 pages, and believed that it offered a realistic timeframe to allow the group to operate a successful recovery strategy, which in turn would result in full debt repayment over time. This plan was examined in detail on behalf of NAMA by FTI Consulting, a global business advisory group experienced in complex businesses, who conducted a comprehensive exercise with which we co-operated fully. Although our engagement with FTI was positive, our business plan was rejected by NAMA without explanation or any meaningful engagement whatsoever. Instead we were required to implement a business plan designed by NAMA personnel unfamiliar with our extensive and varied businesses across nine jurisdictions.

The NAMA plan did not accommodate full debt repayment. Although we had no part in designing it, we were required to implement it and yet remain responsible for the full amount of the loans. Despite attempts on my part, NAMA refused to engage with me to see how this plan could be achieved. To this day, I am bewildered as to why this was the case but the net effect is the taxpayer suffered a loss that could have been avoided in respect of the O'Flynn Group loans. To be clear, we did not get a loan write-down. NAMA took over the O'Flynn Group €1.8 billion loan book and sold to the Blackstone at a discount. However, we continue to owe Blackstone the full par value of the loans. The discount taken by NAMA on the sale of the loan has cost the taxpayer but could have been avoided, had NAMA been prepared to work with us

and to take our business plan on board. We are fortunate that following the resolution of our dispute with Blackstone we still have a business, albeit a smaller one, on which we are building up again and contributing to the economic growth of the country. However, both the tax man and the O'Flynn Group would have benefited, had NAMA taken a more strategic approach to our business and assets. While I can only speak for my own business, I know there were other developers where NAMA has lost out, also because of their failure to identify and work with these people though an agreed business plan to maximise the return to the State.

Finally, there was an in ... there was an inability of NAMA to recognise the cyclical nature of the economic downturn, and take a longer-term view of asset realisation and maximisation of proceeds. We are all ... we are already seeing assets purchased from NAMA being sold on at significant profits. A combination of a failure to identify developers who knew their business and a lack of recognition of where Ireland and Europe were on the economic cycle has resulted in a significant loss for the State. Had NAMA picked developers who knew the business and had a track record, the State would have realised more proceeds and, in addition, some of the office and housing shortages we are now ... which are now emerging due to the lack of activity in recent years could have been avoided.

Much of the debate around NAMA has come to be dominated by its profitability as a measure of its success. This should not be the case. By paying low prices for assets and by taking good loans as well as bad, it was always likely that the entity would generate a profit. However, this profit has been achieved at the cost of an earlier recovery in the banking system and serious damage to some developers, who had loans acquired and who lost an opportunity to work out those loans. It also ignores the huge hidden cost of fees which are not included on NAMA's balance sheets but, instead, added to the account of the borrower.

There are other failings that I think should be identified: the lack of any real oversight of NAMA in relation to the ... to the exercise of the extraordinary powers vested in it; the special Oireachtas committee to examine matters in relation to NAMA, as provided for in the NAMA Act, was never established; the refusal by NAMA to allow partial refinancing joint ventures or any other means of attracting outside equity; the so-called section 172 policy - section 172 precludes the sale of loans by NAMA to borrowers who are in default in respect of those loans; NAMA, however, operated a policy which, in fact, went far beyond what the legislation provided. Although our loans were not in default at the time they were sold, NAMA's process precluded any proper commercial discussions between us and, thus, prospective purchasers of our loans. It was irrational and, in my view, potentially unlawful that we were precluded from having such discussions with potential purchasers. I believe that the State should be allowed to get the best return from the sale of assets, irrespective of who the highest bidder is.

Most NAMA borrowers are prevented from speaking frankly of their personal experiences within NAMA, either because their loans are still controlled by NAMA or because they are subject to confidentiality arrangements. I've outlined in much greater detail in my submission my experiences of NAMA and a ... and the serious shortcomings of same. I should stress, however, that I have encountered some very decent, professional and fair-minded people who worked in NAMA. However, I have also had some very poor experiences. The only remedy a borrower can seek in NAMA is to seek judicial review of decisions made by NAMA. Not only does the expense of such application put it beyond the reach of most borrowers but any such application is certain to be regarded by NAMA as unco-operative and, therefore, in real terms, would be the end of that borrower in NAMA. To be very clear, I had no role or involvement or was not consulted on the transfer of my loans, or the loans of the O'Flynn Group, when the various

financial institutions entered NAMA. I equally had no involvement in the price at which these loans were transferred, the haircut suffered by the banks and the cost to the Irish taxpayer as a result. In fact, at the time my loans were acquired, NAMA ... NAMA insisted that the borrowers did not even have the right to make representations in relation to the acquisition of their loans. The Supreme Court subsequently determined that NAMA was wrong in that regard.

Neither the acquisition of our loans from the banks nor the sale of them by NAMA had any impact on the amount we owed. At all times we remained liable for the full par debt. I've already repaid my personal loans in full, which I believe is a vindication of the fact that they never constituted a systemic risk and should not have been acquired by NAMA. The O'Flynn Group submitted a business plan which would have allowed full debt repayment but this was rejected and, instead, despite remaining liable for par debt, we were required to implement NAMA's alternative plan under which full repayment could never have been achieved. I was not permitted to be a party to the selection of the winning bid for my loans nor the price paid for those loans. It's important to know that we co-operate fully with all prospective bidders to maximise the return to the State and this has been acknowledged by NAMA. People talk about NAMA being a developer bailout but that is not my experience.

To be very clear, as I have said already, I am hugely appreciative to the State for stepping in to provide liquidity when the banks became unable to operate and I wanted to repay that. The taxpayer lost money, of that there is no doubt. However, I have a business that is now much smaller than it was before, resulting in a direct loss to the economy. The main winners in all of this have been the private equity companies who have the funding and are able to buy loans and assets at a time in the economic cycle where the value realised by the State was far from optimal. As the positive economic cycle has progressed, these assets and loans are now being realised at a significant profit.

The future: looking to the future, development always requires skill and judgment to be done well at a significant scale. It's always capital intensive and it is always a risky undertaking. It is essential that a professional developer sector is re-established to ensure that Ireland's future property needs are satisfied to meet the requirements of a modern, growing economy. Part of the re-establishment of a professional development model would have to entail less reliance on bank finance and a greater dependence on a different funding model, where the equity comes from professional investors. But as well as the development sector learning lessons from the crisis, there are also lessons to be learned in the area of zoning, planning and building regulations. We should not lose the opportunity to correct all the systemic issues which ... that contributed to the demise of the property sector in Ireland. The property ... the property market is cyclical. The O'Flynn Group and its various companies have been through a number of peaks and troughs but we have adapted to meet circumstances and to continue in business. It is easy in the current climate to forget the positive contribution made by the ... by the construction-property sector to the economy. A functioning property and construction sector, with properly-managed, experienced companies, is essential in every economy. Ireland is no exception. Thank you, Chairman.

**Chairman:** Thank you very much, Mr. O'Flynn. And if we can commence questioning, please, and in doing so if I can invite Deputy Kieran O'Donnell. Deputy, you've 25 minutes.

**Deputy Kieran O'Donnell:** Welcome Mr. O'Flynn, at the late hour.

**Mr. Michael O'Flynn:** Thank you, Deputy.

**Deputy Kieran O'Donnell:** Mr. O'Flynn, based on your dealings with the Irish banks in the pre-crisis period, did you get the general impression that the ... maintaining and growing market share was the dominant driver in lending practices? And did you observe increasing competition between them for businesses with you and your company?

**Mr. Michael O'Flynn:** Well, I would have to say that we had an approach to lending in that we had our own process to go through before we approached a bank. There is no doubt that there was competition by the banks for such lending. We had our own internal approach where we went through a process of appraisal and did all the advance work before we would even discuss a project with a bank or with banks. I think the competition was strong, of that there is no doubt.

**Deputy Kieran O'Donnell:** And looking at appendix 2 in your ... in your ... page 7, you dealt with eight banks in the first pie chart and over 50% of loans for the O'Flynn Group were held with Anglo alone, from what I can see. And, can you explain why that level of debt was held with Anglo above the other banks? The ... AIB, you dealt with Bank of Ireland, AIB, Bank of Scotland, First Active, Lombard and a couple of other banks. But in the main, well over ... well, I can see from the pie ... over 50% was with Anglo.

**Mr. Michael O'Flynn:** Yes, there's a simple explanation for that in that the bulk of the borrowing with Anglo was out of London. We had a long-established relationship with the London branch of Anglo, and the two businesses that we had in the UK and Europe were Victoria Hall, which is a student accommodation business, and Tiger Developments, which is mainly an investment property and business, would have traditionally banked with Anglo from the outset and we continued to be loyal to them in that regard.

**Deputy Kieran O'Donnell:** And-----

**Mr. Michael O'Flynn:** They didn't bank as much in Ireland and that situation was more ... was handled by the other banks in the main.

**Deputy Kieran O'Donnell:** So the Anglo loans were basically for UK investments?

**Mr. Michael O'Flynn:** UK and Europe.

**Deputy Kieran O'Donnell:** UK and Europe, not Irish?

**Mr. Michael O'Flynn:** There were some Irish, there were some Irish but ... you asked me, the majority ... the scale of the Anglo was ... the scale was the largest because of the UK and European dimension, which was exclusively Anglo out of London.

**Deputy Kieran O'Donnell:** And did you find that the banks, did the banks come to you looking for loans? Did they hustle you for loans, in essence?

**Mr. Michael O'Flynn:** No, we always approached the banks. It was the other way around. We ... if we had a project we approached one or more banks to discuss that project with them. We never had a line of credit. We were driven by a project, not by some, some desire by a bank to entice it.

**Deputy Kieran O'Donnell:** And the level of gearings that the banks were willing to accept, did you see a slippage in that up to 2008 over those years?

**Mr. Michael O'Flynn:** Well, we always had equity in our developments. We ... I wouldn't

say there was a slippage, perhaps there was more competition. There might have been slightly less equity but-----

**Deputy Kieran O'Donnell:** Well, I suppose I'm referring to ... to page 19 of your appendices, and you give two graphs. You give the O'Flynn Group, the value-to-debt ratio at 30 September '08 and on the face of it, Mr. O'Flynn, it would seem that the debt gearing levels were very high.

**Mr. Michael O'Flynn:** Well, sorry, that was at the end of '08.

**Deputy Kieran O'Donnell:** Yes.

**Mr. Michael O'Flynn:** I mean, at the end of '08 we were well into the crisis at that stage, which started in '07. And even ... if you look at that, you're still talking about a difference of a few hundred million, I think, in equity, despite the downturn of '07 and '08. But if you go back to the earlier years, we would have been dealing with an equity ratio, excluding joint ventures now, of maybe 70%, 30%. Well, we had substantial equity on our balance sheet, in our company and, as I said in my opening statement, we had cash balances and we always applied equity to our ... to our projects.

**Deputy Kieran O'Donnell:** You didn't find any one of the banks more aggressive than the other?

**Mr. Michael O'Flynn:** No, actually. There was a sameness about the three or four ... the three main banks we dealt with on equity, you know, lending.

**Deputy Kieran O'Donnell:** And what do you-----

**Mr. Michael O'Flynn:** I would say that the different times, in different years, one was ahead of the other in terms of what they might charge.

**Deputy Kieran O'Donnell:** And what would you regard as a sustainable debt-to-value ratio now?

**Mr. Michael O'Flynn:** Well, now or then?

**Deputy Kieran O'Donnell:** Now. No, wait, both.

**Mr. Michael O'Flynn:** Sorry. I always worked on the rule of ... the old rule was two thirds, one third and I think we all got into the 70:30, and sometimes, perhaps, pushed it over the 70%, but we were always talking about a third, 30%, you know, maybe it went down a bit. Now, I would say that's not enough. I mean, we ... the old rule was that 70:30 was a good position to be. It served us well for 37 years in terms ... or thirty-something years at that stage in terms of how we operated because I don't think anybody, anywhere saw the scale of the shock that we were asked to take. So, we worked on the basis of a model that had served us well for decades but,-----

**Deputy Kieran O'Donnell:** Okay.

**Mr. Michael O'Flynn:** -----all of a sudden, it was ... it wasn't enough, unfortunately, but, even in 2008, we still had substantial equity in our business.

**Deputy Kieran O'Donnell:** And what would think should be the ... going forward, what would you feel is a sustainable level?



**Mr. Michael O’Flynn:** Well-----

**Deputy Kieran O’Donnell:** Based on your expertise in that area.

**Mr. Michael O’Flynn:** Well, I would say that, you know, the banks today are very much down in the 50 ... 50%, 55%, and I think that’s where it needs to be.

**Deputy Kieran O’Donnell:** Okay. In the pre-crisis period, same period, did you or your management colleagues believe at any point that there was a property bubble was in the making, or did you generally rely on the soft landing theory?

**Mr. Michael O’Flynn:** I think, to be frank, we were always concerned about prices. We were ... in a way, we were pricing ourselves out of business because of the scale of price increases. That did worry us.

**Deputy Kieran O’Donnell:** When you say “price increases”, are you saying in land?

**Mr. Michael O’Flynn:** Well, I’ve heard previous reports of this inquiry. Land drives the price of houses more than anything else and the first rule of business was always to stay in business, but there was probably a time in the 2000s when we should all have packed our bags, really, because of the price escalation of land.

**Deputy Kieran O’Donnell:** Now when-----

**Mr. Michael O’Flynn:** And we were making larger profits, but those profits were necessary to replace land because the land cost was going up so much.

**Deputy Kieran O’Donnell:** And when ... what would you think was the period that you should have all ... what date should you have all packed up your bags, in hindsight?

**Mr. Michael O’Flynn:** Well, I think, in the mid-2000s, land was overheating and we began to ... it’s important to remember that I’ve been through the ‘80s and the ‘90s in the UK and I’ve seen different difficulties, shall I say, in the property area. So, we were diversified in terms of geographic locations, but also in terms of development and investment and, like, we would have had €75 million rental income per annum; whilst we were in NAMA, for example, I think, somewhere totalling €260 million, €270 million was paid to NAMA. So we were ... we thought we had a good hedge because of the-----

**Deputy Kieran O’Donnell:** Rental roll.

**Mr. Michael O’Flynn:** -----the rent roll, but, you know, against that, no one ever anticipated the scale of the collapse and, I suppose, prices ... when the average couple can’t buy a house, you know, you know something is going wrong with your business model. But very little anyone could do about ... you know, do-----

**Deputy Kieran O’Donnell:** Did you pull back, did the O’Flynn Group pull back at any stage coming up to-----

**Mr. Michael O’Flynn:** Well, we found ourselves losing out to a lot of sites, you know, which was a concern to us at the time, but I’m ... I must say, the whole planning situation is a huge concern of mine and has been for a long number of years. And it’s not just today and I’m not looking back with hindsight when I talk about this, but I’ve a huge difficulty in that the price of land went absolutely out of all order but the lack of market marking ... matching up what was

required to satisfy the market and what was being zoned-----

**Deputy Kieran O'Donnell:** We'd-----

**Mr. Michael O'Flynn:** -----there was a complete mismatch, Deputy.

**Deputy Kieran O'Donnell:** We'd Mr. Mulryan in earlier, you may have seen his testimony.

**Mr. Michael O'Flynn:** I saw some of it, yes.

**Deputy Kieran O'Donnell:** And he said that, from '05 on, he reckoned that there was 30,000 more houses being built than the market required. So, was there a case of whereby that supply was well in excess of demand-----

**Mr. Michael O'Flynn:** I think-----

**Deputy Kieran O'Donnell:** -----from '05 on?

**Mr. Michael O'Flynn:** I think there are two points to that. One is that the overall numbers were out of line with what should have been built. But we built a lot of houses in a lot of places where houses weren't needed. We zoned a lot of land, you know, in a lot of places land was ... shouldn't have been zoned. We put a lot of infrastructure into land, into local authorities where ... to build houses in places where they shouldn't have built houses in the first place. I mean, I've always concentrated on the metropolitans, but I was really, really taken aback by some of the developments that got zoned, and got infrastructure and got planning. You know, you have to have zoning, you have to-----

**Deputy Kieran O'Donnell:** Yes.

**Mr. Michael O'Flynn:** -----have infrastructure, you have to have planning, before you get to funding an actual product. And ... so to answer your question, I don't have the breakdown of where the numbers of houses were built that should have been built.

**Deputy Kieran O'Donnell:** Well, then on a final point in this question, what could have been done, we'll say, in that '04-'05 period, that would have cooled the market?

**Mr. Michael O'Flynn:** Well, first of all, I would have zoned more land. I would have matched up the zoning and the infrastructure to where houses were needed. Anybody like us, building houses since 1978, it was not in our interest to have house prices escalating to the extent they were, making super profits that we were putting back into the raw material, we were buying for new land. That is not a business model that can survive, okay? We thought we had a good hedge against it because of all the other activities and this ... We formed a group in 2006. We thought by forming the group we were doing exactly what should be done in case you had a downturn. We never ... maybe we all bought into the soft landing, somewhat, but no one could have anticipated a global crisis - the euro crisis. Because the-----

**Deputy Kieran O'Donnell:** Did you-----

**Mr. Michael O'Flynn:** -----the mismatch between the banks' borrowing and the banks' lending. That was not understood by people like me, to the extent that it should have been. And I accept that as a mistake by me.

**Deputy Kieran O'Donnell:** So did you buy into the soft landing?

**Mr. Michael O’Flynn:** I bought into the soft landing, by and large, because I never thought that the banking position could be as bad as it was. I always had equity. I knew that equity could be lost. Like, in a development, first of all, you have a balance sheet. But then in a development itself, you have a profit margin; that’s the first thing that should go. And then you have equity in the company with ... but no one ever anticipated that the scale of the drop, which was no doubt connected, not to the oversupply, because there was very little oversupply, and I’ve been a long advocate of this. It was all down to the, you know, to the banking collapse and the establishment of NAMA. Because NAMA’s establishment was meant to save the banking crisis. But sure, it expedited it.

**Deputy Kieran O’Donnell:** Well, okay, that leads into NAMA. Did the NAMA disposal of assets and loans from your company’s portfolio happen at the most opportune time to achieve the best return for your business and, more particularly, for the taxpayer? And can you please distinguish between disposal regimes for Ireland and abroad in terms of the way NAMA dealt with it? You might just go through it and a couple of points I want to take up with you.

**Mr. Michael O’Flynn:** Sorry, could you mind giving me the questions on their own again, please?

**Deputy Kieran O’Donnell:** In simple terms right, do you believe - you’ve said it already, but just to articulate it - do you believe that the way the policy that ... the way NAMA went about disposing of your loans was in the best ... put O’Flynn Group in the best position and get the best return, the most opportune return to the Irish taxpayer?

**Mr. Michael O’Flynn:** Well, it certainly didn’t put us in the best position. I think anybody who’s been reading the press for the last 12 months would know that.

**Deputy Kieran O’Donnell:** But Mr. Flynn-----

**Mr. Michael O’Flynn:** Going back-----

**Deputy Kieran O’Donnell:** Yes.

**Mr. Michael O’Flynn:** -----going back to that, Deputy, the first point is NAMA ... we’ve been into NAMA ... now I embraced the NAMA structure with reservations, and that’s no secret to anyone, because I made a lot of comment at the time because it was my business and my livelihood and everything else. But I went into NAMA on the basis that this was going to be a work-out vehicle. That we were actually ... they were actually going to identify people they could work with and figure out a plan to get us out of this extraordinary position that ... perhaps, we contributed somewhat to it but I think it was a ... banking was the origin of the scale of it. And when I went into NAMA, I thought NAMA was going to be work-out vehicle and we were going to figure out plans on working that out. I spent enormous time, as did my senior staff, working on a business plan of some couple of thousand pages, because of the nature and scale of our business but NAMA had no interest in that business plan.

**Deputy Kieran O’Donnell:** What did NAMA want you to do?

**Mr. Michael O’Flynn:** NAMA just ... NAMA was a quasi-receivership disposal structure. That’s what NAMA was. Like, I’m here to tell the inquiry, answer your questions - that’s what it actually was. Because NAMA wanted me to dispose of my assets. That’s it.

**Deputy Kieran O’Donnell:** But you did-----

NEXUS PHASE

**Mr. Michael O’Flynn:** I knew their plan. I could not repay the debt ever with the plan they had. I had a plan that by ... with a number of ... of inputs and a structure ... you know, a strategic plan, which was reviewed by FTI Consulting on behalf of NAMA, but I had a plan to repay my debt. They never engaged in that plan.

**Deputy Kieran O’Donnell:** And would that ... would that have required NAMA to put an investment into your proposal?

**Mr. Michael O’Flynn:** Well, that’s a very good question, Deputy, because it would have, but that’s the nature of business.

**Deputy Kieran O’Donnell:** But that’s taxpayer’s money.

**Mr. Michael O’Flynn:** Sorry, the nature of business is: we owed money. Some of those businesses didn’t actually need ... needed very little money. Remember, we ... we had a big ... you know, rental income. But the reality of the situation was, if you put companies on hold for one, two, three or four years you’re not going to get a return from the businesses that are actually involved in that period and that’s actually what happened. I mean, they definitely gave us ... allowed us do certain developments, as they saw it or certain pieces of development, as they saw it. But the overall plan that we produced to repay our debts was rejected. And that’s ... that was a watershed moment for me-----

**Deputy Kieran O’Donnell:** Yes.

**Mr. Michael O’Flynn:** -----because I had come up with a plan. I wanted to repay everything. I’m very grateful for what the taxpayer ... for the State and the taxpayer, what was done, but my plan was to repay the money, not be told “Here’s a plan, which won’t repay the money and, by the way, you’re responsible for it.”

**Deputy Kieran O’Donnell:** If NAMA wasn’t set up, what would have happened to the O’Flynn Group? Like, you were very exposed, particularly in Anglo and other banks. What would have happened to the O’Flynn Group?

**Mr. Michael O’Flynn:** Well, I actually wasn’t that exposed in Anglo because of the amount of rental income I had with Anglo.

**Deputy Kieran O’Donnell:** Well, before your loans went into NAMA, were they functioning loans?

**Mr. Michael O’Flynn:** Yes, they were.

**Deputy Kieran O’Donnell:** Were you repaying?

**Mr. Michael O’Flynn:** Yes, they were ... yes, I was.

**Deputy Kieran O’Donnell:** Was there much interest roll-up on loans?

**Mr. Michael O’Flynn:** Well, sorry, I ... it’s important to understand, interest roll-up is part and parcel of development. Where I had interest roll-up it was being rolled up. To this day ... and I’ve borrowed recently for development, from one of the pillar banks, and I’ve offers from both of them for development, there’s interest roll-up as well, because that’s how those loans are done.

**Deputy Kieran O’Donnell:** So your loans went into NAMA-----

**Mr. Michael O’Flynn:** So there was interest roll-up on one hand. There was substantial interest being paid on the other loans on the other hand because of the rental income I had. Now, you must realise, for a year before NAMA became active, the banks were pretty inactive. So that was a period when a lot of loans went out of kilter and I can’t, Chairman, give the exact details of every-----

**Chairman:** I appreciate that.

**Mr. Michael O’Flynn:** -----but, by and large, I can tell you ... and I can come back if you wish, Chairman, I can tell you that we were doing what we were supposed to be doing. Now, we made decisions with banks not to continue developments that we had development finance for, because that was the prudent thing to do. We brought a lot of our developments to a convenient stop. There is no ghost estate attached to my portfolio anywhere. We put huge effort into finishing off roads, finishing off houses. People who had bought off us were actually not living in building sites. That was the effort we put in and we felt-----

**Deputy Kieran O’Donnell:** And can I just-----

**Mr. Michael O’Flynn:** -----we felt we had to put in.

**Deputy Kieran O’Donnell:** Can I just ... point of clarification, your personal loans were taken into NAMA, right? In terms of security for those personal loans, would it have any way involved the O’Flynn Group in terms of shareholding in the O’Flynn Group or-----

**Mr. Michael O’Flynn:** No, my personal loans, to this day is a bone of contention of mine. They should never have been in NAMA, because, because-----

**Deputy Kieran O’Donnell:** Were they in any way, security-wise or anything, tied into the O’Flynn Group?

**Mr. Michael O’Flynn:** No. We had no ... I had no personal guarantees. There was no connection.

**Deputy Kieran O’Donnell:** At all.

**Mr. Michael O’Flynn:** Yes. Like, as I said to you, I embraced NAMA. My only option at the time was take a judicial review. Yes, I took the best legal advice in this country and considered taking it. Not just looking with the benefit of hindsight and what NAMA turned out to be, I should have taken a judicial review against everything except the Irish land and development company, because I genuinely thought I was buying into a structure that actually was a work-out, was an asset management agency, as the name describes, but it was anything but that, Deputy, I can assure you.

**Deputy Kieran O’Donnell:** And can I take it further? Do you have any idea of the level of discounts that were ... that was ... given on your loans when they went into NAMA? Have you any idea?

**Mr. Michael O’Flynn:** Deputy, I have no idea. I can’t answer that question.

**Deputy Kieran O’Donnell:** Well then, assuming when those loans were ... were initially mooted to be sold on to Blackstone ... I just ... you were reputed back in May 2014 as saying that ... that your ... that your ambition was to ... that the loans would come out of NAMA. Am I correct in that?

**Mr. Michael O’Flynn:** You’re absolutely correct. Once NAMA rejected my business plan ... and at that stage ... at that stage and during that process I had made a lot of important concessions to NAMA, serious financial concessions to NAMA. Once they had rejected my business and presented a plan that was unworkable, I would not repay my loans. At that stage, Deputy, I wanted out. And I make no secret of that fact because, as far as I was concerned, I couldn’t do what I set out to do and I wasn’t interested in implementing a plan that I had no faith in and I didn’t believe in.

**Deputy Kieran O’Donnell:** And at the time, just, I suppose, for clarification, Mr. O’Flynn, would you have been on a salary from NAMA as ... were you one of the developers that would have been on a salary from NAMA during that period?

**Mr. Michael O’Flynn:** Well, first of all, I wasn’t on a salary from NAMA, I was on a salary from my company. All our expenses and all our costs were being paid by the company.

**Deputy Kieran O’Donnell:** Okay. So your basic-----

**Mr. Michael O’Flynn:** If that’s an answer to your question-----

**Deputy Kieran O’Donnell:** Your basic contention was you were a functioning company, repaying your loans and whatever. Can I just ask you on one particular point, you state in your ... page 1 of your document you say-----

**Mr. Michael O’Flynn:** Which document now, sorry?

**Deputy Kieran O’Donnell:** This ... sorry, on your statement itself.

**Mr. Michael O’Flynn:** Yes.

**Deputy Kieran O’Donnell:** And you say, “neither the recession nor the banking crisis could fairly be said to have been ‘caused’ by developers.” Can you expand on that? And in your view who ... it’s the second last paragraph on page 1 and it says, “For present purposes, it suffices to record my personal view that neither the recession nor the banking crisis could fairly be said to have been ‘caused’ by developers.” If not, who caused the crisis?

**Mr. Michael O’Flynn:** I have always said that there’s no question there was too much borrowing. There was a lot of borrowing for projects that could not work and I had lots of experience of looking at projects that couldn’t work. I don’t believe that the banking crisis ... that this was caused by developers. I think we certainly, the borrowings in the property sector were an issue but the developers that I would speak of are not ... are the full-time, professional developers, who have been at it, in my case 37 years now and lots of others like me. But, unfortunately, every single person became a developer of some sort or other. Not every single ... lots of people became developers. And all of us got lumped in together. This is what happened also in NAMA. Everybody was ... they didn’t separate the professional from the amateur, or from the people who got into the business, people who had no skills in the area, people who had no history of doing ... or, actually not able to work the assets, so to speak. So I don’t think it’s a ... we’ve taken a fair amount of criticism as a grouping and I’m speaking for the full-time professional developers. A lot of that has actually been caused by the way NAMA decided to demonise us at the outset, which is an extraordinary thing to do when you’re taking over all the loans of all these people, to be overcritical of them. But I think the banking crisis ... it was a global crisis. It was a euro problem. And I think had the banks been able to withstand the shock that other countries could, I don’t think we would be having this discussion that ... we certainly

had some contribution, but we didn't cause it.

**Deputy Kieran O'Donnell:** Do you believe it would have been a soft landing?

**Mr. Michael O'Flynn:** I'm sorry, I believe we have other issues on the property area. I'm not saying we didn't make some ... I'm absolutely, you know, appreciative to the ... of the support and I'm absolutely acknowledging that were lots of issues in the property area. But to put us there front and centre as the cause, the developer community that I speak for, I don't think that's a fair reflection.

**Deputy Kieran O'Donnell:** Can I just bring it to the present, and you've been quite outspoken in terms of how future planning for building of houses and commercial ... the provision of commercial property and very much, a lot of that has been directed at NAMA. What would you ... what's the blueprint that you would like to see in terms of the next five years, as to what you believe should happen in terms of provision of housing throughout Ireland and provision of commercial property?

**Mr. Michael O'Flynn:** Well-----

**Deputy Kieran O'Donnell:** And obviously, when you're giving that reply, integrate NAMA into your response.

**Mr. Michael O'Flynn:** Well, the first thing one should try and figure out, what does the market need? We should only ever be supplying market needs. There was a lot of market needs that never existed that people were trying to supply. At this moment in time I'm extremely worried about the supply of houses and the supply of buildings for industry. I am worried because, whilst I've read the Government's 2020 programme, and it's quite good, it says a lot of things, I don't see much implementation attached to it. I see a mismatch in terms of the funding for the industry. There's a serious funding problem out there for the industry. Everyone talks about we need all these houses, we need buildings, we need everything. But, to actually address the issues, someone needs to do something about it and I, I can see prices again being driven ... I think the ... I think the, the cost associated with building, the development charges, you know, we need proper regulations, and I'm all for that but some of the standards being applied by local authorities are just not necessary and are, are not what's needed in a recovering scenario. Having said that, I'm not against, the regulations are essential. I'm just talking about the extra cost being put. Development levies need to be looked at ... the whole planning area is taking for ever. We have to get real about planning in this country if we're talking about playing catch-up on what's needed in terms of housing and FDI. We're lucky that one of the pluses of the ... of that period is that we'd a lot of buildings where a lot of housing of jobs took place, but they're running out. We, we have the ... trying to fund speculative development, Deputy, is next to impossible, even in, even in this greater area in ... the greater Dublin area.

**Deputy Kieran O'Donnell:** Why is that, finally?

**Chairman:** Final question, Deputy.

**Mr. Michael O'Flynn:** Because the banks-----

**Deputy Kieran O'Donnell:** Just expand-----

**Chairman:** Final question.

**Deputy Kieran O'Donnell:** Why is that, what funding model should be put in place and

what can you do to ensure-----

**Chairman:** I'm only allowing one supplementary, Deputy. I'll bring you in in the wrap-up again then, okay? You're lead questioner, so you get back in.

**Mr. Michael O'Flynn:** Because the banks have had such a difficult time with property, I can understand their reluctance to go near anything with, where there's ... more speculative nature than they need to. The reality of the situation is that you have to create buildings before you get tenants. Buildings aren't going ... people aren't going to come from, you know, faraway places in the world and wait two years. You have to have, I've known in places that we've developed in Cork, we've done a lot of work with the IDA over the years and they've done phenomenal work, but they needed buildings. They need buildings. I go back to the time when they used to ... advance factory rentals because otherwise we couldn't fund it. We're back to those days again but, to answer your question, we need to identify how many houses do we need and where do we need them. We need to put infrastructure where those houses, and you know I ... I've been involved with lots of meetings on behalf of Property Industry Ireland, even recently with various Departments ... in Dublin and recently with the Cork development forum. I'm really worried about the fact that there's scarce money to go around, we're not putting it where development is urgently needed to supply the housing numbers and the offices and factories that are needed. So you have to identify first: what's the market need, where is the need, you can't give some, a bit to everyone everywhere in the country and you have to supply it at a cost that works. Unfortunately, some of the costs associated with development today, the cost of funding is one of those costs. I think the development ... the banks are going as far as they can go. I think there's only a certain amount of equity around, a lot of the equity was easy to get for investment properties. It's more difficult for, for development ... I know that more than anybody else as, as well as anybody else knows that. So, I think we've challenges there in the cost of funding, we've challenges on the costs associated with planning, development levies and some of the regulations.

**Chairman:** We'll return to that again in a moment, Mr. O'Flynn, but I do need to move on. Senator Marc MacSharry.

**Senator Marc MacSharry:** Thanks very much, and thanks, Mr. O'Flynn, for being here and sorry for delaying you so long this evening. From your statement that you've made political contributions to various parties, in your opinion was there any relationship between political contributions from the property sector and the regime of property-related tax incentives and reliefs, such as the urban renewal scheme in the pre-crisis period, and were such tax measures as common in other countries where you had business interests?

**Mr. Michael O'Flynn:** Well, I made contributions to parties and there's no question about that and I've always supported various approaches for contributions. There was ... I never made a contribution to connect with and look for anything from any politician, ever. So, I don't see any connection there but to go to the, the key part of your question, I think tax incentives are very important for certain types of developments. I accept some of the tax incentives in this country probably went on longer than they should but I was involved in urban renewal, I would say urban renewal is still necessary in parts of our cities. I think we've, we have to have more people living in cities and we have to find ways of buffering the, the brownfield or, or, you know, the brownfield cost of building and the issues around that. I mean there are large parts of our cities that are not viable, some of them were not viable in the boom years and that's the blunt reality. I've been involved in student accommodation schemes in ... back in the early '90s. Ireland led the way, we created a very big student accommodation business in the UK, in



Germany and Spain. Ireland led the way with accommodation, with student accommodation because of tax allowances and it helped universities enormously and I read in the paper, I think today or yesterday, that one of the universities - I think our own man from Cork - was calling on further tax incentives. We have to provide accommodation if we're going to feed our universities and I think universities are very important. So the point I'm coming to is, there are some tax incentives which would be very necessary and very desirable today.

**Senator Marc MacSharry:** Just so ... for absolute clarity, you wouldn't be aware of any demonstrable *quid pro quo* for contributions or donations?

**Mr. Michael O'Flynn:** Senator, I can assure you absolutely ... I've been part of many delegations and have met politicians in all spheres of Irish society and I do not ever connect the two.

**Senator Marc MacSharry:** Okay and just a last question on this kind of stream, if you like. When contributions were made in ... by the firm or you personally or whatever, were they always solicited by way of, you know, fundraising activities by politicians or political parties, or, for example, at election time would you unilaterally decide "It's election time, I think I'll make contributions"?

**Mr. Michael O'Flynn:** I think to answer your question, by and large, they were ... we were always approached to buy a table, buy this, buy a golf outing or something or other, and they were all public events which we openly supported and I don't ... I can't recall getting up in the morning deciding to contribute. But if I was approached for that, or for many other causes be they charity or otherwise, I was rarely found wanting.

**Senator Marc MacSharry:** To the best of your knowledge, you wouldn't have kind of taken your own initiative and said, "Well there's an election coming up I think I'll ...".

**Mr. Michael O'Flynn:** No.

**Senator Marc MacSharry:** Okay, that's fine. From your perspective, do you regard the valuation methodology applied in the pre-crisis period as having been sufficiently robust and representative? And if not, what is your view in relation to any deficiencies in the valuation process in the pre-crisis period?

**Mr. Michael O'Flynn:** You mean in the development sector pre-----

**Senator Marc MacSharry:** Indeed.

**Mr. Michael O'Flynn:** Look ... the valuation is not an exact science, it is never meant to be. I think the valuations turned out to be so wrong, one would have to question how valuable they were. But I would also have to say that you have to have a valuation process in an industry like ours. I think the valuers, like ourselves, have learnt a lot from the crisis, I think, going forward. Values tend to be above the market when the market's going up and below the market when the market's going down. I think you won't see too many strong valuations from the experiences they, and all of us, have had in recent times. But to answer your question overall, I think valuations were too strong.

**Senator Marc MacSharry:** And then in the crisis, well I say ... let's ... rather than the crisis, in the stronger growth period, say that's 2005-2006, into 2007, did standards drop in any way in terms of the approach by valuers, in terms of the robustness of loan to value? Or was there any sense that valuers were facilitating developers perhaps to get a better loan to value

ratio from their perspective rather than the banks-----

**Mr. Michael O’Flynn:** I can only speak of my own experiences and we always dealt with the main companies when it came to valuations and valuations were nearly always a requirement, a precondition in the bank borrowings. I have never experienced anything other than proper, professional approach and I dealt a lot in the UK as well and, I must say, the Irish-UK model would have been very similar.

**Senator Marc MacSharry:** Yes, and would any valuer have ever, if you were putting together a project and maybe you had your own view, or your project team had their own view of a value, did the valuer ever say to you, “Sorry no, that won’t work, that doesn’t work, that doesn’t stack up”?

**Mr. Michael O’Flynn:** No, absolutely ... even ... if the valuer wouldn’t always agree and that’s fine too. But we had our own process for evaluating, you know, a project. And we never brought in valuers except as a banking requirement, because we would have had our own skills in the various offices that we have, because we don’t operate at a distance from any of our projects.

**Senator Marc MacSharry:** You said there that in nearly every instance a valuation was required. Can you outline a case or two, perhaps, where, in borrowing, a valuation was not required?

**Mr. Michael O’Flynn:** Chairman, I have to check, but, by and large, it was a box that we always ticked. And, you must remember, if I was to go forward with a development, I would have to be sure of my sales prices and we would generally ask ... consult with external agents, and we would always work on the basis that you might be asked to value this. So there was no point in giving us a value unless it was going to, you know, follow through.

**Senator Marc MacSharry:** I suppose ... it’s not in any way to question your own good business model, it’s rather to get a perspective because we’ve had other evidence that would suggest that, on occasion, financial institutions did not seek valuations. So, could I ask you, without being specific to any cases, are you aware of any loan for a development purpose that was extended, to you or anybody, without a valuation being insisted upon by the financial institution?

**Mr. Michael O’Flynn:** I can’t say that I am, to answer your question, but I’ve no doubt loans were extended where banks took a view of other security but ... and that I would be aware of, because I was often puzzled by the prices paid, so ... and puzzled by the prices paid, there’s usually some reason why a bank can lend more than what’s-----

**Senator Marc MacSharry:** In your assessment, did NAMA save your business, or not? And are there features of NAMA’s engagement with your company that you regard as particularly helpful and any as particularly unhelpful?

**Mr. Michael O’Flynn:** Well, that’s a big question. I’ve already outlined a lot in my statement ... and mentioned in my opening statement. I think the concept of NAMA might have worked had they embraced the industry and those who were capable of working through. I didn’t think it was the right concept. I put into my statement ... I made a submission, I felt there should have been a bad bank in each bank. I think if NAMA was a ... overall credit-controlling structure, it might have had some chance but the kind of skills that NAMA ended up with ... for the kind of undertaking they had to carry out, it was just an impossible ask. They didn’t have

the skills to deal with companies of our scale or of the type of product we were dealing with. It became ... it wasn't an asset management company, it became a quasi-receivership vehicle.

**Senator Marc MacSharry:** So just ... in the word, then, helpful or unhelpful?

**Mr. Michael O'Flynn:** Helpful in that it became a temporary home whilst the banking system was not operating but very unhelpful when I realised that we, as the company executives with the knowledge and know-how, our views and our proposals to repay debt didn't matter.

**Senator Marc MacSharry:** In your opening statement, sorry, in his opening statement, Mr. Daly's comments ... it's okay to make reference to previous evidence isn't it?

**Chairman:** Yes, once you're not getting into the business of-----

**Senator Marc MacSharry:** Sorry, I am quoting from you, I'm just confusing myself slightly for a second. In your own opening statement, you said that "Mr. Daly's comments illustrate NAMA's lack of understanding of the development sector and I take exception to the generalised suggestion that diversification can only be explained as an unbridled and irresponsible "*compulsion to purchase*-----

**Mr. Michael O'Flynn:** It was actually Mr. McDonagh said that. I corrected it today.

**Senator Marc MacSharry:** Was it, okay, sorry, Mr. McDonagh ... "*compulsion to purchase more*", you said. Can I ask, did NAMA have an expertise or skillset deficit, to your mind?

**Mr. Michael O'Flynn:** Well, I think it had. I don't see how NAMA could ... like, the banks had an expertise in banking and financial ... albeit everybody had difficulties, but NAMA didn't have the asset management-type property experience that was necessary and it became very clear that the programme was to dispose of assets and there's been an extraordinary amount of assets that were sold at totally the wrong time. But on top of that, a lot of assets lie dormant. We weren't preparing planning permissions, we weren't working on preparing for the shortage that we now have today because nothing happened for a number of years. So ... if the work was done in that period, which was all part of our plan and I'm sure the plans of others, well, then you would have a much more valuable portfolio today. But you've portfolios now being sold where pretty much nothing happened for a number of years. Like, the nature of our business wasn't a collection of assets, it was a business. You can't let a business ... you have to keep working a business and I am ... we have a sound business plan.

**Senator Marc MacSharry:** Did you have a sense that ... you were mentioning earlier about you had gone with your business plan and so on and this was rejected ... did you have a sense that because you were the developer, because you were the business owner, that, in some way, because you were the maker of the suggestion or business plan that it was going to be wrong anyway?

**Mr. Michael O'Flynn:** Well, we had it professionally assured by an outside company. So, we didn't just make it up ourselves in a room and say "NAMA must agree with us."

**Senator Marc MacSharry:** Yes.

**Mr. Michael O'Flynn:** So, we employed and engaged with one of the top accountancy firms in terms of assuring and sense checking our plan and proposal. So, it was something that was-----

**Senator Marc MacSharry:** So, it is your-----

**Mr. Michael O'Flynn:** -----properly thought out, now.

**Senator Marc MacSharry:** Yes. No, I appreciate that. So is it your assessment that it wasn't adequately assessed on the other side?

**Mr. Michael O'Flynn:** Senator, I don't think it was assessed at all, really.

**Senator Marc MacSharry:** Okay. Do you think-----

**Mr. Michael O'Flynn:** There was another plan in play to dismantle the people in the industry and that plan ... I was told at a very early meeting by the senior executives, "We want disposals. We don't want plans. We don't want development. "We don't need any more development", I was told at one meeting by a very senior executive and I said, "But this is a business that I've been in for an awful long time and we will need development again." And I'm on public record of saying that for a number of years now. We had too much development in many places but we have ... we had a short ... we never oversupplying. We'd wrong product at times and I'm guilty of that, partly driven by planning considerations and partly driven by bad timing on our part. I'm the first to accept to that but, by an large, we shouldn't have stopped the development industry like we did. We shouldn't have panicked either, like we did. I'm sure Europe ... we'd have found a way with Europe if we had proper approach to a lot of companies who were capable of working out their product and supplying the needs of an economy that was in difficulty but had a careful plan to return to ... which it has done and which we wanted to tie into as an industry.

**Senator Marc MacSharry:** In your opening statement, you said, and I'm quoting, "I firmly believe that, from the outset, the Board of NAMA lacked experience in many important areas but most notably [I just said there a second ago again] in the area of asset management and development ... NAMA had embarked upon a strategy of disposals which I believe ultimately cost the State dearly." Can you expand a little bit on this?

**Mr. Michael O'Flynn:** Well, maybe on reflection, Senator, I'm being quite, maybe somewhat unfair to the board. Maybe it's the senior executives I should have more carefully described that as but I do think the board lacked property experience also. I think the senior executives absolutely lacked it.

**Senator Marc MacSharry:** Okay. Well, put it another way. Let's just say NAMA, as opposed to board or executives, I mean do you feel that ... I mean, would it be correct to say that they embarked on a strategy for disposals which ultimately cost the State dearly - as an entity as opposed to individuals or board or executives or-----

**Mr. Michael O'Flynn:** There is no question, Senator. By anybody who understands the Irish property businesses and companies that there has been an incredible amount of money lost on the structure that was set up to save the banks but it did the opposite, to work out the industry which it never actually did and we now have shortages and rising prices, which is a concern to everyone, and very few structures capable of actually delivering product which is ... you know, to attract the new money that's needed for development, you need platforms, you need businesses because, you know, and I have recent experience of this. The first question that all of these equity providers who might look at development will ask is, "Who is the company? Do you have a structure? Is there someone to receive the money?" So, all of this happened under NAMA's watch. That's my answer.

**Senator Marc MacSharry:** Did your experience in disposals that ... did NAMA, do you think, or not, look to the assets with the stronger or the greater equity to dispose of first or to move first so as to raise capital for their own works rather than - and you had mentioned earlier - looking at the longer-term picture of what was viable development?

**Mr. Michael O'Flynn:** Well, some of the overseas assets that were sold quickly, and I resisted that, were extraordinary. We knew in the industry, those of us operating out of London ... there were very good examples in London. Some of the assets now that are maybe been brought to the market in Ireland are actually going to do well, but had they been sold back then like others were, you'd have had the same result. So it's extraordinary that we were in such a rush to sell good assets, a lot of them good income-producing assets, and, at the same time, hold the borrowers responsible for the outcome when the timing couldn't have been worse. I think in a banking situation ... and I have been through the banking issues in the past in terms of tough times be it in Ireland and in the UK and overseas. We worked through ... we paid all our money back. It didn't happen today or tomorrow but it was always the plan was you borrowed the money, you paid your money back and that's what companies like I wanted, like us wanted to do.

**Senator Marc MacSharry:** I don't want to panic the legals on the next question so I'm only going to be questioning in a very general sense, okay. I'm going to quote for you and then I'm going to ask a question but in a very general sense. And you said in your opening statement:

NAMA was required to have full regard of the legal rights of those who were to be affected by those powers. Regrettably, in my experience, it did not always happen.

So not speaking specifically, but in a general sense, which legal rights of developers do you believe, in general, were affected by NAMA's operations?

**Mr. Michael O'Flynn:** Well, it's a very general-----

**Chairman:** I'll assist you in answering the Senator's question. Is ... without finding yourself in a space of making an allegation that would be ... well, it might consider an abuse of privilege or something like that I would maybe, if you could speak in general terms as to what the approaches were. Once you don't make a statement. Okay, please.

**Mr. Michael O'Flynn:** I just want to go to the section of the statement you're referring to, Senator.

**Senator Marc MacSharry:** Yes, I've, kind of, my own notes done out so I can't tell you what page it's on, I'm afraid.

**Mr. Michael O'Flynn:** Okay, that's fine.

**Senator Marc MacSharry:** It's on the screen, great.

**Chairman:** Highlight the section. It's hard to read there sometimes if it's at an angle. Yes, it's the ... item 4, the role of NAMA.

**Senator Marc MacSharry:** My screen isn't operating so I can't help.

**Mr. Michael O'Flynn:** Okay, I have it now.

**Chairman:** You've got it.

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**Mr. Michael O’Flynn:** I have it on all counts now. So the paragraph you are referring to is the first paragraph, yes?

**Senator Marc MacSharry:** I couldn’t tell you; it’s not in front of me, unfortunately.

**Mr. Michael O’Flynn:** “... was required to have full regard to the legal rights”.

**Senator Marc MacSharry:** Yes, it’s the first paragraph I’m told, yes.

**Mr. Michael O’Flynn:** There is no doubt in how NAMA operated, the extraordinary powers vested in it were used to make ... to get commercial solutions from borrowers who didn’t have any access to the courts and who were not able to defend their positions. Now, it’s one thing to give extraordinary powers; it’s another thing for those powers to be used, not just in a legal sense, but in a commercial sense, and I think the property rights of companies and individuals was taken away by the fact that people had no choice. It was a case of if we didn’t accept what was being suggested, another solution would be found for your borrowings. I think the rights of the individuals and I don’t want to go into the technical side and I don’t want to go into any of my own. But the rights of the individuals and companies were ignored in the application of their commercial power, not to mention their legal options.

**Senator Marc MacSharry:** Okay. Chairman, you can guide me on this one. I’m going to quote again and then ask you a question, but if I’m veering offside, you can let me know because I am not sure. Again, in your opening statement you said:

The O’Flynn Group co-operated fully in all of its dealings with NAMA, but there was no consultation with the developer when the loans were acquired; a strong business plan was rejected without explanation; and there was a leakage of very sensitive information into the public domain.

What leakage of sensitive information was made into the public domain that you referenced in your opening statement? And do you believe the leaked was-----

**Mr. Michael O’Flynn:** Well I-----

**Senator Marc MacSharry:** -----deliberate or accidental?

**Mr. Michael O’Flynn:** It was deliberate.

**Chairman:** Okay.

**Mr. Michael O’Flynn:** And it’s now the subject of criminal investigations.

**Senator Marc MacSharry:** Okay.

**Chairman:** Okay. We’re all right.

**Senator Marc MacSharry:** Is that all right?

**Chairman:** Yes.

**Senator Marc MacSharry:** Okay, that’s all I wanted to know about that. Very finally, three minutes ahead of schedule: for the taxpayer, do you believe that in NAMA, the public have got value for money?

**Mr. Michael O’Flynn:** No, I don’t.

**Senator Marc MacSharry:** Thank you.

**Chairman:** Thank you very much. I'll just take a couple of questions myself there, Mr. O'Flynn, and it's been indicated to me that some members might want to have a very short break, a comfort break, at that time. Mr. O'Flynn, would you describe yourself as a developer or a builder or is there a difference?

**Mr. Michael O'Flynn:** It's a good question, Chairman. It's a question I'm hearing more recently. We are builders and developers, in that I think to describe ourselves only as developers isn't doing justice to the amount of other skills that we have in terms of project management, construction and development management. And I think the origin of the business was building and developing. In the '80s, there was one profit. That was a combination of construction, project management and developer. Unfortunately in the years leading up to the crisis, everybody became a developer and all the other skills were hired in. I think we're going back to the model where unless you have the in-house structure and ability, I don't think the banks will want to know any more, and I don't think if the banks will be interested, you won't be able to borrow money.

**Chairman:** I want to focus on the building aspect in a moment. Were you a land speculator at any time?

**Mr. Michael O'Flynn:** No. We bought land as raw material to build houses.

**Chairman:** Okay. And did you speculate at any-----

**Mr. Michael O'Flynn:** I don't think, Chairman, I have ever sold land as ... except maybe I ended up with a surplus site but I can't even remember one of those offhand, no.

**Chairman:** Okay.

**Mr. Michael O'Flynn:** We always built on our own sites.

**Chairman:** On the building side of it, I want to move to the present, and then maybe work a bit backwards and we'll go back into NAMA and all the rest of it. In testimony recently with the former Taoiseach, Bertie Ahern, last week, one of the issues that he repeated over and over was to increase supply, increase supply, during the crisis years. However, we know that even with the increase in supply between 2002 and 2007, affordability was an issue for a lot of people and that people on the average wage saw the average price of a house go up severalfold, in some cases ten to twelvefold over a period of time. In terms of a construction building programme at this moment in time, where are we with affordability? Is it possible, to your mind, that we can build houses that are somewhat in or around maybe four to five times the average industrial wage and provide people with an average house at that cost?

**Mr. Michael O'Flynn:** We are struggling to supply because the cost of building is higher than the sales price, so we ... and I think one of the problems of those years is that there was too much credit available to people to buy houses and there wasn't enough serviced and zoned land to supply where product was needed.

**Chairman:** Okay.

**Mr. Michael O'Flynn:** So it was a double-edged situation. I think there is viability coming back in lots of Dublin, parts of Cork and other cities.

**Chairman:** But at affordable levels is the question I'm asking, Mr. O'Flynn? Is-----

**Mr. Michael O'Flynn:** I think we've a cost-based problem. I think we-----

**Chairman:** Maybe if I can ... maybe if I can reshape the question?

**Mr. Michael O'Flynn:** No-----

**Chairman:** There's a difference between returning to a sustainable construction programme, where it's 12% of the economy, as opposed to 24%, but there is a question as well that has to be put, that we, we ... recovery does not mean prices of back in the heady days of 2005, 2006 and 2007?

**Mr. Michael O'Flynn:** Chairman, to answer your question, I think we've a cost-based problem, because we can't afford prices to go up too high. They need to recover more, a little bit more on the sales side, but I think on the costs side, on the VAT side, for example, I mean, there is ... on Part V, social and affordable housing, I was a big critic of not having the integration but having the costing loaded onto the private mortgage holder. I think the whole ... there's up to 40% of a house, goes back to the Exchequer, in some form or other. To answer your question, I think we have a difficulty on the cost side, and, I think we need some more help on the sales side. But, it can't be all on the sales side, because, if your average couple - and we knew this was happening - if your average couple can't-----

**Chairman:** This brings me to my next question.

**Mr. Michael O'Flynn:** -----buy a house, you have a business that's going nowhere.

**Chairman:** Okay, and-----

**Mr. Michael O'Flynn:** We won't be able to fund it, so we have to look at both sides. This is my difficulty with Construction 2020. There's nobody looking at, how can we come up with a plan to build houses that people can afford. We're not dealing with it.

**Chairman:** And by, by the mid-2000s that's exactly where we were, in that the typical Garda, nurse, or whatever, were not able to afford to buy your product, and-----

**Mr. Michael O'Flynn:** When that happened-----

**Chairman:** Can you just hear me out a second?

**Mr. Michael O'Flynn:** Sorry, Chairman.

**Chairman:** Thank you. The State, through Part V and other measures, as you mentioned, made interventions and, in the Cork region, that both you and I would be familiar with, we saw affordable housing which is social housing, which is subsidised to allow people to have the ambition realised to buy a home exceeding €200,000 and so forth. So, on the basis that there was an affordability issue, as you just mentioned, did you, at any time, spot that affordability issue in the 2000s, and at any time did you adapt or change your business model or talk to the banks about it?

**Mr. Michael O'Flynn:** I certainly realised we were pricing ourselves out of business, for want of a better description. I probably expected prices to level off for a long time. We were fortunate in that we were able to build, project manage and develop, but others couldn't. I definitely would have said it many times to ... at meetings with Departments, which I often attend - I



attended some in the last few weeks, discussing this very issue - and, certainly would have said it to the Government of the day as well, because, we were ... I would have regular interaction through the CIF, or, in recent times, more with PII, about the difficulties of having a business model that's sustainable, fundable, and that'll deliver a product.

**Chairman:** Okay. Going back into the future, again, is there a Rubicon that gets passed, that when the average household couple earnings ... that the price of the average home that would be in their affordability range passes a ratio point that we have an unsustainable model again?

**Mr. Michael O'Flynn:** I think we're fast going down that road, unless we have a serious look-----

**Chairman:** In the new building market, now.

**Mr. Michael O'Flynn:** Yes, unless we have a serious look at the cost base, Chairman.

**Chairman:** All right. Mr. O'Flynn, there was a nine-month time lag from the announcement of NAMA to the enactment of the enabling legislation and a further few months before business loans began to be transferred from the banks. Now, you've spoken in general, but I just ... this specific aspect of it, did this time lag have any particular effects on your business, and, if so, please elaborate?

**Mr. Michael O'Flynn:** It had enormous effect on our business in that the banks weren't able to operate, NAMA weren't fully in play, and we were left in a situation that we were between both, and, for a long period of that time, NAMA had to approve decisions that the banks were making. It was just ... it was ... it really did exacerbate a bad situation, and that's why I've always felt that, had a solution been found connected to the banks, you would have saved all that time, and you would have saved an industry that was in total meltdown.

**Chairman:** Mr. O'Flynn, related on the NAMA operation again, NAMA adopted five approaches for managing debtors. Basically, there was a menu of them there, about five approximately. One was full loan restructuring; two was partial loan restructuring; three was disposals links to key milestones; four, agreed disposable programmes; and five, enforcement. Typically, one of these approaches was applied to a debtor; if not, maybe a menu of them. Were any of those five approaches taken with you, collectively, altogether, or one or two of them?

**Mr. Michael O'Flynn:** I think you are talking about one or two of them, or a combination of them, that were put back to us as, "Here's the prescription, you need to take it".

**Chairman:** Okay. And, in taking those approaches, would you have considered them fair, benign or adverse?

**Mr. Michael O'Flynn:** Look, I didn't expect NAMA to be an easy place for anyone. I did expect it to be commercial. I did expect it to be more understanding of the nature of the businesses we were in, and I did expect it to want to engage with a strategic look forward. It didn't have that, and I don't think it ever sought that as its remit, to be fair to some of the board and people in NAMA. Perhaps there was a disconnect there between the Government and NAMA.

**Chairman:** And on that broad range of, sort of, operations, because I ... with trying to comprehend the complexity of such a situation going in there ... and there are so many parties to it and so forth - banks, your own organisation, subsidiaries and so forth - and then debtors

and creditors and everything else, was there any time during that period where NAMA gave assistance to any creditor issues that you may have had during your involvement with them?

**Mr. Michael O’Flynn:** Any assistance NAMA gave us on creditors we provided security they didn’t have-----

**Chairman:** Okay.

**Mr. Michael O’Flynn:** -----previously. And I said it in my earlier remarks to Deputy O’Donnell that we ... we weren’t found wanting, even though we didn’t have the various companies cross-secured. But, at that stage, I understood we were dealing with a different structure to what it turned out to be.

**Chairman:** I’ll move on to the whole, sort of, exiting of NAMA in a moment but maybe if I can just get a picture. When was the last significant big project that you undertook where you borrowed significant sums prior to the whole business product going south?

**Mr. Michael O’Flynn:** Probably the Elysian in Cork.

**Chairman:** Pardon?

**Mr. Michael O’Flynn:** Probably the Elysian.

**Chairman:** Okay.

**Mr. Michael O’Flynn:** Just came to completion right at the ... as the market disappeared.

**Chairman:** Okay, and what was the cost of that development, about-----

**Mr. Michael O’Flynn:** Over €100 million.

**Chairman:** Okay. And had you ... were you commencing other developments in and around that time where you had sought funding as well?

**Mr. Michael O’Flynn:** No, we put a pause on our housing schemes that we were developing at that time.

**Chairman:** Okay.

**Mr. Michael O’Flynn:** We finished off houses that were under construction. We brought other houses to a convenient stop and we generally, what I would say, made sound commercial decisions as regards what to finish and what to leave, and we brought all our estates to a completion that any residents who bought were able to live and not feel they were living in a building site.

**Chairman:** I remember the Elysian when it was built and the one abiding memory I have of it, Mr. O’Flynn, is I think that a one-bedroom apartment in it was something like €385,000 and you could get a Porsche kitchen put in for about €100,000 on top of that. I think it might be cheaper to buy the car and you would have had a better investment in the long run, but you could get a ... at any time, did anybody say ... because, remember ... because I live in Cork, you could still get quite a good house in the suburbs of Cork for in around €350,000. You were selling one-bedroom apartments for the same price, if not more, with the super-duper kitchen to go with it. Did anybody say “this business model is a-----

**Mr. Michael O’Flynn:** I don’t think, Chairman, the kitchen you described went with the one beds.

**Chairman:** I don’t think it did. Maybe I ... I could be incorrect there.

**Mr. Michael O’Flynn:** So-----

**Chairman:** It would be a one-seater Porsche if that was the case, Mr. O’Flynn.

**Mr. Michael O’Flynn:** I should correct you on that point.

**Chairman:** Okay.

**Mr. Michael O’Flynn:** All I can tell you is that the Elysian will stand the test of time.

**Chairman:** Okay.

**Mr. Michael O’Flynn:** It’s a building that any modern, growing city should want and should have. Unfortunately, the timing was terrible in that it probably took us a year to a year and a half to get planning, and it probably took us two and a half years to build. So when you press a button ... and we had a lot of equity put into the Elysian, when you press ... and put a lot of equity into finishing the Elysian, and I think we brought it to the right stage. Unfortunately, the reason it’s spoken of so much, and I’m happy to bring it up as an example to answer your question, Chairman, is that NAMA refused to allow a fit out of the Elysian, and had that happened it would have been occupied immediately. We subsequently had some units fitted out but had all the units been fitted out day one, every apartment would have been occupied. It will recover in time. It will take some time, unfortunately, but it’s ... it’s a development that Cork can be proud of and that will always work in Cork. And remember, this was all appraised; we didn’t just ... we were working off house prices of the day. We were working ... we had done our construction cost analysis. So you might say the prices seem crazy but I can tell you, we would not have started that without the appraisal being signed off by the bank - and it was one of the pillar banks - by the sales, by the construction. So we ticked all the boxes that we always ticked but we never expected the prices to fall to the extent they fell.

**Chairman:** And-----

**Mr. Michael O’Flynn:** But it should have been let immediately. One year’s rent would have fitted out each unit and it’s now idle ... some of it is idle about four years. But, thankfully, Blackstone have a plan - in conjunction with ourselves - to fit it all out now and let it all.

**Chairman:** Okay. This is my final statement, then I just propose we take a very short break. You say, on page 5 of your statement, that NAMA embarked on a strategy of asset disposals which you believe ultimately cost the State dearly. As assets disposals were - and still are - linked to the redemption of senior bonds, as agreed with the troika, in your opinion, what should NAMA have done differently?

**Mr. Michael O’Flynn:** Well, they should certainly have not disposed of assets and they ... in the early days, which they did. They should have found a way of going back to Europe, going back to the State to ... once they understood the cyclical nature of our business and the likely recovery of that business. When the private equity companies come in here, in great numbers, I can assure you they know what’s going to follow, and it has followed. So they should have found a way of doing what banks always did in this situation, they should have worked out the loans and worked out ... with the borrowers who were capable of doing that. And some of the

properties that were sold in London and other parts of the globe by NAMA have turned out to be very expensive lessons for the Irish taxpayer.

**Chairman:** And just on that, on a general rule then - it's my final, final question - is ... was there ever any vast differences between your internal valuation and external valuations?

**Mr. Michael O'Flynn:** No. Well, when you say "vast differences", they were-----

**Chairman:** Okay, well if ... a significant-----

**Mr. Michael O'Flynn:** I don't consider 5% to be ... to be a big difference. There's a tolerance level in valuations. Of course, if we got valuations that didn't match our own anticipated prices, we wouldn't have gone ahead with a project but I would rarely have come across a situation that that happened.

**Chairman:** Thank you very much, Mr. O'Flynn. I now propose that we break for just five minutes or so, for a comfort break. Just to let you know that you are still under oath. You can take advice from your own ... your own team, if you wish ... if you wish to do so and we'll return and you're still under oath. Just before we go into ... I just, very quickly, just on a housekeeping matter, I now propose we just go into private session. I just want to make an announcement.

*The joint committee went into private session at 9.22 p.m. and resumed in public session at 9.50 p.m.*

**Chairman:** We continue our engagement of this evening with Mr. O'Flynn. It is just coming up for ten o'clock, so if I can ask Mr. ... or Senator Michael D'Arcy to recommence questioning. Senator, you have ten minutes please.

**Senator Michael D'Arcy:** Thank you, Chairman. Mr. O'Flynn, you are very welcome and you're good to stay.

**Mr. Michael O'Flynn:** Not at all.

**Senator Michael D'Arcy:** Banks were under increasing pressure due to the competition within the banks to offer incentives, such as non-recourse loans, interest-only roll-up, lower interest rate margins, interest holidays and the like. In your experience, were such practices common among Irish banks? And if they were, did the situation differ between Irish banks and banks, non-Irish banks, banks from outside of the jurisdiction?

**Mr. Michael O'Flynn:** I think the practice was very similar on both sides of the Irish Sea, but I predominantly worked with the UK ... or with the Irish banks. I think, yes, there was competition. I think, unfortunately, a lot of lending seemed to have been based on personal guarantees, which seemed to have give comfort to the banks, albeit for maybe not the best reasons. And I think that ... I was ... I'm somewhat surprised by the level of competition that led to, maybe, personal guarantee style banking to the extent that it actually happened.

**Senator Michael D'Arcy:** And did the non-Irish banks in ... banks from other jurisdictions accept personal guarantees as sufficient collateral?

**Mr. Michael O'Flynn:** My information is yes, but the UK approach would be a lot less than the Irish approach, but I think the Irish operation in the UK would still have very much been based on personal guarantee.

**Senator Michael D’Arcy:** As a business or a profile of a major construction development company grew, did you observe a relaxation in the lending criteria?

**Mr. Michael O’Flynn:** I can’t say I did. We had our own approach to lending, or to borrowing, and when we were borrowing, we set about a proposal that we had our own internal approach, our own process, and we went to the bank when we were pretty sure that we had a bankable proposition that made sense for us to go forward with. I can’t say that I saw any big change in the approaches by banks, and I would have found them all to be pretty similar in that regard.

**Senator Michael D’Arcy:** You discussed NAMA earlier, Mr. O’Flynn, the €42 billion discount. Could you speak further in relation to that in terms of ... I’m not asking you about your own personal business; what I am asking is what is your understanding about how the State gets back, some, all of that €42 billion?

**Mr. Michael O’Flynn:** Well, I would be surprised with some of the prices that were paid, if they don’t make a profit, but you have to understand that there was an awful lot of money spent on professional fees. It became quite a business, the professional fee, not just the NAMA professional fees, but what was added on to the borrowers as well on ... in relation to maybe NAMA’s professional advisers as well as the borrower’s own professional advisers. And I’m not sure a lot of value was gained from that, because, perhaps, in some cases, the security was poor, and the businesses weren’t sound propositions in the first place or they lacked a professionalism. But in a lot of cases - and I can speak from my own experience - there was nothing gained from the millions that was put into professional fees.

**Senator Michael D’Arcy:** Sorry, Mr. O’Flynn, Minister Lenihan told us very clearly during the NAMA debates, that the discount would stay with the borrower, would stay ... and that the banks ... while the money-to-par value that was transferred to NAMA ... that the borrower would still be on the hook for the discounted amount or loan.

**Mr. Michael O’Flynn:** That is correct. I mean, the par value continued, and I can only give you my own experience. What we owed going in to NAMA we owed coming out of NAMA, in terms of ... less whatever moneys we paid in the meantime.

**Senator Michael D’Arcy:** Sorry, the discounted amount that you didn’t bring into NAMA, that was with the banks, is the money I’m discussing.

**Mr. Michael O’Flynn:** The banks paid ... the banks were paid a discount by NAMA, but the borrower still owed the full amount, so the discount was ... in some cases, it was one arm of the State paying the other, and because of ... at that stage you had a nationalisation of one of the banks, or a number of the banks. So what was that about? I don’t know.

**Senator Michael D’Arcy:** What I’m trying to explore is the discounted amount that wasn’t transferred into NAMA that remain on the banks’ balance sheets, that the developers are ... had borrowed ... the full value. Will the State see any of that money?

**Mr. Michael O’Flynn:** I’m not sure there was any discounted ... I don’t understand the question. I’m sorry, Senator, I don’t understand.

**Senator Michael D’Arcy:** Sorry, the loans were ... the full loans were €74 billion. NAMA were ... paid the six covered institutions €32 billion.

**Mr. Michael O’Flynn:** Yes.

**Senator Michael D’Arcy:** There was a discounted amount of €42 billion.

**Mr. Michael O’Flynn:** Yes. That money is lost to the banks.

**Senator Michael D’Arcy:** The money is lost to the banks.

**Mr. Michael O’Flynn:** Because a sale took place, the loans were sold, the money is lost to the banks but the borrowers still owe the money ... the full amount.

**Senator Michael D’Arcy:** Yes, I’m aware but will the State get the money back is what I’m trying to ask?

**Mr. Michael O’Flynn:** Well, unless NAMA makes a big profit and I can’t see the structure that’s there and the lack of activity to a lot of the businesses that were in and remember, it should make a big profit because good loans were taken as well as bad loans or challenging loans. And I would have expected them to make, you know, quite a profit. But you don’t make profit in business unless you invest in business.

**Senator Michael D’Arcy:** True. Mr. O’Flynn, Mr. Dan McLaughlin, chief economist with Bank of Ireland ... I’m not sure if you saw any of his evidence?

**Mr. Michael O’Flynn:** No, I didn’t but I know of Mr. McLaughlin, yes.

**Senator Michael D’Arcy:** He stated very clearly that there was a commercial real estate sector that damaged the banking sector more than anywhere else and he itemised the ... Anglo Irish Bank as being the most expensive to the State, costing over €30 billion. And he also stated clearly that and the documents that we’ve had at our perusal stated that Anglo Irish Bank was 82% commercial real estate, 1% residential and 17% corporate, much of which was related back to commercial real estate sector ... a monoline bank. Could you offer me an opinion in relation to commercial real estate sector?

**Mr. Michael O’Flynn:** I mean, Anglo was a property bank. That’s what Anglo was. That was the model and unfortunately, there was a mismatch between what they were borrowing and lending because they didn’t have the access, the funds. So that mismatch, it was ... none of us, none of us understood the position we were all finding ourselves in by borrowing money. And it was a raw material for our business but none of us understood the situation that they had a mismatch on their side and that came back to haunt us all because the banks, really, couldn’t afford to lend the money they were lending.

**Senator Michael D’Arcy:** You stated previously, Mr. O’Flynn, that the international dynamics were the biggest factor. Is that ... would I be correct in assessing that?

**Mr. Michael O’Flynn:** I think the global-----

**Senator Michael D’Arcy:** The global.

**Mr. Michael O’Flynn:** The global crisis had a big influence. I think the euro situation, that euro lending that when we went into the euro and the lending that happened as a consequence of that and the access to money by the banks. And that’s how the banks grew because of the access overnight and the access to short-term money. I think that drove property prices and I think property contributed but I think the bigger macro issues were the root cause rather than

we were the cause. We were a contributor but not the cause.

**Senator Michael D’Arcy:** Those macro influences were in other jurisdictions?

**Mr. Michael O’Flynn:** Well, the sub-prime situation was the origin-----

**Senator Michael D’Arcy:** Nowhere else had the same banking crisis ... same banking crash like ours. Did you explain that?

**Mr. Michael O’Flynn:** I think England had quite an issue but they dealt with it quite differently by the insurance scheme they brought in. I think we, in setting up the NAMA structure, we hastened the demise of our banks and we also ... if you look through the NAMA ... the purpose of NAMA and go through each of the line items in NAMA and I’m happy to go through them, if you wish now.

**Senator Michael D’Arcy:** But, Mr. O’Flynn, sorry. Just to make ... the €64 billion was 1.5 times the national debt of the nation. The UK’s banking crash wasn’t 1.5 times ... the equivalent of the national debt of the UK.

**Mr. Michael O’Flynn:** I’m not for a moment suggesting that amount of money should be lent to property. I absolutely ... it was far too much property for this State. But a lot of the property that was being lent on for outside the State and a lot of that didn’t turn out to be as sound as one would have expected. But the reality of it is there was too much money lent in property. There wasn’t enough regulation in that regard. And I’ve been speaking for our own structure and structures like ours - I think we were able to take a shock but the shock that came was just no ... no business can operate if the ... all the banks get into difficulty at the same time and all the customers are going to be affected at the same time. So, yes, I think there’s no doubt that the banking ... the amount of lending, how a lot of the lending was done, the lack of regulation around it, I think all of those are big issues which I am sure this ... which I know this inquiry has a lot to assess. But I think that’s the ... that’s the root cause of the situation. That’s my view. That’s all I can give you is my view-----

**Senator Michael D’Arcy:** Thank you.

**Mr. Michael O’Flynn:** -----Senator.

**Chairman:** Thank you very much. Deputy Joe Higgins. Deputy, ten minutes.

**Deputy Joe Higgins:** Mr. O’Flynn, you say in your opening statement that generally in relation to your loans that there was quite strict vetting by the banks before a loan would be given. Is that correct?

**Mr. Michael O’Flynn:** Yes indeed, Deputy.

**Deputy Joe Higgins:** Yes, and you’ve seen on the other hand that NAMA and other witnesses here have said the opposite, not in relation to your business, which wasn’t commented upon, but as a general comment. So have you any ... how can you square this situation that you ... you say were impeccably proper with regard to securities, etc.? But generally there seems to have been a *laissez-faire* attitude according to other witnesses.

**Mr. Michael O’Flynn:** Yes, I ... like, Deputy, it’s a fair question and I did say in my statement as well that there was a big difference between the approach of professional developers from part-time developers and I can’t speak for how ... how poorly some governance was in

loan applications. But the reality is that if the loan application ... the person making the application had a poor system it looked like it might have still got through and I can only speak for companies like ours who actually did our business in a certain way. And when our business transferred to NAMA, there was no outstanding security, no outstanding undertakings, no outstanding anything because we were as keen to make sure that our security was done properly. So, to answer your question, I think that there ... based on the evidence of people from NAMA and elsewhere, there were a lot of ... of less than proper legal and other diligence work done and people borrowed money.

**Deputy Joe Higgins:** Mr. O’Flynn, there was evidence given also regarding to ... a reliance on solicitors’ undertakings for loans. Were you aware of this?

**Mr. Michael O’Flynn:** I would be aware of it, yes. Even though we wouldn’t ... we wouldn’t have any outstanding undertakings for any length of time. Undertakings are essential for commercial transactions to take place but not beyond a very short space of time.

**Deputy Joe Higgins:** Mr. O’Flynn, one estimate would say that tax breaks for property development cost the Exchequer €2.78 billion between 2004 and 2008. Were such tax breaks important to your business and would your business and loans have been viable without such tax breaks?

**Mr. Michael O’Flynn:** I think they would have been viable. In that period of time, I don’t think we benefited from any tax breaks. We were ... we benefited from tax breaks in the earlier period. I’m not sure what specific tax breaks you are referring to when you give that figure to me. Can you enlighten me on the tax breaks for that period?

**Deputy Joe Higgins:** Well, I think it refers to a whole range of-----

**Mr. Michael O’Flynn:** A whole range. Well, I think a lot of the tax breaks, e.g., hotels and seaside villages and that, I think ... I could never understand them, first of all. And, secondly, I don’t think they needed to be there for developments to happen and some of them might have been better off if they never happened.

**Deputy Joe Higgins:** So would you say that it was then a needless subsidy from the taxpayer to developers and banks?

**Mr. Michael O’Flynn:** I think it ... I think some tax breaks as I said, Deputy in my opening statement or in response to the first questioner, some tax breaks were necessary and they’re desirable and they would be desirable today, but I think a lot of them were ... perhaps they were a good idea, but they should have been a finite period on them, and I think they went on far too long.

**Deputy Joe Higgins:** Right. Just moving on then, Mr. O’Flynn, *The Irish Times* on 19 May 2014 reported or said that loans worth about €1.8 billion by yourself and NAMA were sold to Blackstone for €1.1 billion. Would you say, now that you’re out of NAMA, if that’s-----

**Mr. Michael O’Flynn:** I don’t-----

**Deputy Joe Higgins:** Is that accurate?

**Mr. Michael O’Flynn:** Deputy, I don’t know the answer to that question. I’ve never been given a figure. I’ve no ... I’ve no knowledge of the answer ... of the figure that Blackstone paid or otherwise.



**Deputy Joe Higgins:** But do you know how many ... much loans went into NAMA, surely?

**Mr. Michael O'Flynn:** Oh sorry, I'm aware of the loans that went into NAMA. And it ... sorry, went into Blackstone ... you mean were sold to Blackstone?

**Deputy Joe Higgins:** Yes.

**Mr. Michael O'Flynn:** It was ... yes, there's something, 1.7 something billion euro.

**Deputy Joe Higgins:** And you've no knowledge of how much NAMA received from Blackstone?

**Mr. Michael O'Flynn:** No.

**Deputy Joe Higgins:** For those loans?

**Mr. Michael O'Flynn:** No, I was never privy to that information, Deputy.

**Deputy Joe Higgins:** You've no way of venturing an educated guess, have you?

**Mr. Michael O'Flynn:** No, I've already explained to the inquiry that we set about to repay all our loans. Our business plan was rejected and I've never made a secret of the fact that I, given that our plan was rejected, I was quite keen to exit NAMA because I couldn't see any future in a structure that didn't allow me to apply my business and work my way out of all my loans.

**Deputy Joe Higgins:** And, Mr. O'Flynn-----

**Mr. Michael O'Flynn:** The result, the result from Blackstone ... the NAMA sale to Blackstone, I was outside the room, Deputy, I was never involved in it-----

**Deputy Joe Higgins:** Yes.

**Mr. Michael O'Flynn:** -----so I can't ... I can't explain.

**Deputy Joe Higgins:** Yes. Let's say, for the sake of argument, that it was sold to Blackstone for a lesser amount, some hundreds of millions; who ... is somebody pursuing you for that difference?

**Mr. Michael O'Flynn:** Sorry, I ... I got no write-off. I got no write-down, so why would anyone pursue me? I mean, I ... I have no ... I have no ... I have no access to that situation.

**Deputy Joe Higgins:** Okay.

**Mr. Michael O'Flynn:** That's a matter between NAMA and Blackstone.

**Deputy Joe Higgins:** Well, could Blackstone pursue you, for example?

**Mr. Michael O'Flynn:** Well, Blackstone ... I owed Blackstone the full debt, not any discount they might have received and the Blackstone situation is well known. We ended up in quite a dispute and as a result of that dispute we have a settlement, which is confidential, Chairman and I cannot go into that.

**Chairman:** We get that, and I don't want you to breach that either.

**Mr. Michael O'Flynn:** But there has been no write-off, or no write-down in terms of the

break-up that has occurred between Blackstone and myself. So I'm not, I'm not-----

**Deputy Joe Higgins:** Okay, and, Mr. O'Flynn, the examiner reported that you were able to buy back some of your loans or-----

**Chairman:** Is it the *Irish Examiner* or the financial examiner? Just to be clear on that.

**Deputy Joe Higgins:** Yes. Is that true?

**Mr. Michael O'Flynn:** Just to explain ... sorry, just to explain, Deputy: in the settlement of our dispute, and I have to be very careful here, I am ... we are taking away a certain amount of assets and Blackstone are taking away the rest. The lion's share are going to Blackstone and the debt follows both. Okay? So I am finalising a structure with Blackstone, which takes away development assets for both Ireland and the UK.

**Deputy Joe Higgins:** Yes, because of time I'll just move on, Mr. O'Flynn. Mr. O'Flynn, you said the developer is not to blame for the crash. Most people and many witnesses certainly to this inquiry would say that in many ways, developers and bankers were Siamese twins responsible for blowing up the bubble to excessive lending, speculation and so on that caused the crash?

**Mr. Michael O'Flynn:** Well look, I can only be responsible for my own business, and I'm not saying that property lending hasn't contributed to the ... to the crash. Certainly as far as I'm concerned, developers like us who have always done our business for all the years, 30-plus years, didn't cause the crash that you refer to.

So, I can't speak for the world but I can tell you ... is that we alone, in how we did our business, wouldn't have caused any crash. Some of the property lending - and the scale, and the lack of regulation and some of the people it was lent to - perhaps contributed to the crash. But I'm not ... I don't think it's fair for, with due respect, for people to put the tag on us as the people ... or to describe us as Siamese twins with banks. I mean, banks can speak for themselves but I speak for my developer situation.

**Deputy Joe Higgins:** Okay. Mr. O'Flynn, you asked a question in the course of answering ... or, here, tonight, and you posed, "How can we build houses that people can afford?" You're aware that a High Court judge, Kenny, had a report in '73-'74 ... that the price of building land should be controlled so that speculation was ruled out. And if you combine that with building homes at cost prices, people can afford that then. Is that ... wouldn't that be true? If the speculation and the profiteering was ripped out of the system then people could afford.

**Mr. Michael O'Flynn:** Well, I, I'm aware of the Kenny report that never actually ... I think anything happened with it, as such, but-----

**Deputy Joe Higgins:** It was never implemented.

**Mr. Michael O'Flynn:** Never implemented, that's ... that's what I should have said. But, Deputy, to ... to answer your question, I'm not speaking for land speculation. Land speculation ... or spiralling land prices is bad for people in my business. It's ... we are people who build houses. We have built hundreds - 400 to 500 houses a year on the peak - we've been building houses since 1978. We employ lots of people directly to do that and hopefully we will be back building houses again. The problem, Deputy, is that we can't build houses unless we can build affordable houses. We don't have enough land zoned in the right places, we ... the ... we don't

have enough infrastructure for that land. And, I could speak very much about Cork as a region. I mean, we have huge challenges to put an affordable model ... and I'm not in disagreement with you, I'm not speaking for any land speculators. Because I'm buying land to build houses to sell; the more I pay for the land the more that my business isn't going to work. So, I'm not-----

**Deputy Joe Higgins:** Just, lastly-----

**Mr. Michael O'Flynn:** -----I'm not disagreeing with you that land speculation is a good thing, it's not a good thing.

**Deputy Joe Higgins:** Lastly, Mr. O'Flynn, because my time is up, we see now venture funds - what are called in some media circles "vulture capitalists" - buying up large tranches of apartments and homes here and becoming extensive landlords, making ... make people who exist in those developments feel very insecure, very uncomfortable. What kind of a legacy is that for developers and banks to leave to ordinary people?

**Mr. Michael O'Flynn:** It's ... described as you have, it's not a good legacy at all but you have to ask yourself the question "How did this happen?" Why did we allow property fall below replacement cost? 'Cause that's what we did and that's what these people will do when they see property falling below replacement cost. And I've outlined already to this inquiry that the NAMA model caused property to fall below replacement cost 'cause they talked down their own product, they talked down their own ... their own borrowers. 'Cause, at the end of the day, other than properties that NAMA have taken ... enforced on, if the borrowers owned the property. So, we've allowed a situation where values kept dropping and that's what's created the opportunity for the external capital companies to come in. No, what you describe is not a good situation and I think it's a great shame the amount of money that has been wiped off property and off property companies, and the amount of money that property companies' individuals have suffered. Because we are described as ... as a bunch of people who ... who didn't behave well. I can assure you, Deputy, I behave well and my company and others like me have behaved well. What has happened is ... is terrible. It should never have happened. But I - like others like me - stayed around to try and find a way through and that's what I've been trying to do. And it's been a tough, tough time.

**Chairman:** Thank you, Deputy. Senator Sean Barrett.

**Senator Sean D. Barrett:** Thank you very much, Chairman, and thanks for coming back again, Mr. O'Flynn. The Central Bank, in an assessment of the valuation process, commented that credit institutions were often negligent and imprudent in the manner in which they requested property valuations. Did you agree with that and ... and did you see any differences between the valuations sought by Irish banks and non-Irish banks?

**Mr. Michael O'Flynn:** No, Senator, I saw no great difference. But again, as I've said a number of times at this inquiry, I would have approached-----

**Senator Sean D. Barrett:** Yes.

**Mr. Michael O'Flynn:** We had our own, I suppose, process for making loan applications. I was ... had to be satisfied first.

**Senator Sean D. Barrett:** And did you tell us earlier that even Anglo didn't engage in these attributed inefficiencies from the Central Bank, that you found Anglo inefficient?

**Mr. Michael O’Flynn:** The Anglo ... and I’ve looked at them, because of my appearance here today ... I’ve looked recently at the Anglo facility agreements, where we borrowed extensively out of London. I can tell you they were as stringent as any other facility letters that we have, and I have provided a copy into the inquiry.

**Senator Sean D. Barrett:** And you had, I think by some books, it’s in a public source, I think it’s Simon Carswell’s book, you had a billion borrowed from Anglo?

**Mr. Michael O’Flynn:** Yes.

**Senator Sean D. Barrett:** But they went broke for about 30. So if they were efficient with you, there must have something else happening in the ... in that bank?

**Mr. Michael O’Flynn:** Well, I ... all I can speak is from my own situation, we had a very, very substantial rent roll with them, and I would have said ... I would have ... with a bit of hindsight, Senator, I don’t think any of my overseas properties should have come into NAMA.

**Senator Sean D. Barrett:** Yes.

**Mr. Michael O’Flynn:** Because I think that was good lending by Anglo Irish in London, and I can’t speak for other borrowers.

**Senator Sean D. Barrett:** In the circumstances of where all of the banks had gone broke, and the country was in a rescue from the IMF, was it impossible for somebody to, you know, just putting the devil’s advocate ... surely it was impossible for people to come to you and say, “Listen, we’ll try and separate the amateur developers but we’ll try and keep you in business”. I mean it just wasn’t an option for Mr. Lenihan at the time, was it? You know, given that all that banks were gone, and the country was at the behest of Mr. Trichet.

**Mr. Michael O’Flynn:** Well, I don’t accept that. I think Mr. Lenihan had the option at the time of working it out, you know, through the banks. They were ... the UK model was ... they set up an insurance scheme to cushion the blow, because there was quite an impact on the UK as well. So my view is that what we ... the solution here made the problem bigger, and if you look at the recovery, it was meant to put money into the system. We’re seven years on, or whatever number of years, and we still haven’t got the money into the system. I mean, there’s still a very, very tight functioning banking sector.

**Senator Sean D. Barrett:** But we haven’t made the adjustment, would that be the case made? That we saw houses in 1990 going from two and half times income to twelve times income. As you said earlier, you were pricing your product away from the average guard, teacher, nurse, and so on.

**Mr. Michael O’Flynn:** Yes.

**Senator Sean D. Barrett:** And will we ever see, you know, four and half, five times average incomes for house prices again, or will we all be working for banks and builders?

**Mr. Michael O’Flynn:** Well, as I said earlier, I think the cost model has to be looked at a well. I mean with 13.5% VAT- there’s zero VAT in the UK. We’ve a lot of ... the housing area and the construction area gave a false economy to the State for a long number of years. To go back to some of the questions that were asked, and the Chairman asked. We have to look at the cost side to make sure that your average guard and nurse can buy houses. And I, as house builder, want that to happen.

**Senator Sean D. Barrett:** I mean, we have development levies in south Dublin, 60,000 per house. A levy of 352,000 per hectare within 1 km of the LUAS, so ... and I've another here that Ronan Lyons gave, that the average house price has risen by 10,000 a year to construct, between 2009-2014. There's a substantial increase of a third in construction at a time when ... of static incomes, in fact, falling incomes, falling house prices, driven by regulatory changes with increased minimum sizes accounting for 40% of the increase, greater energy efficiency accounting for further 40%, and cost relating the building control amendments accounting for 10%. So, there's too much high cost still in the system, isn't there?

**Mr. Michael O'Flynn:** There's no question, and that's my comments earlier on Construction 2020. We've no prospect of delivery. There's no prospect of implementing that policy that the Government have put out there, unless somebody sits down and starts analysing both sides of the line here, because the cost, as you say, and some of those regulations I am in favour, not some of the local authority extra regulations that have been put on. But we ... the planning issue, like we've a serious planning problem in this country in terms of having planning applications processed at a reasonable time period because the longer it takes to get planning, the longer ... the more it costs at the end of the day. Like, cost goes somewhere. They all go on to the end purchaser. And, to go back to Deputy Higgins' point, we have to build affordable houses and we have to look at all the factors, and I'm talking about not just the VAT and the development levies and the contributions, obviously, the Part V, the social, we have to look at them all. I mean, we've no social housing policy in this country to deliver housing and putting some of that, albeit integration is desirable, over on top of people who are saving for houses is wrong. And that's an issue that I said in my closing of my earlier statement, Chairman, I think the future and how we're going to solve, we must learn from the mistakes but we must also come up with a workable business model for development because the equity players, who are essential to the business going forward, will not invest unless it works. And the banks certainly won't invest. And we still haven't cracked that vital piece of mezzanine finance that's probably going to be necessary from here on. So, we had an unsophisticated model in this country when it came to development. It came back to cost us dearly, but we have to come up with a model that's going to work or we'll be here in two or three years' time still talking about the problems.

**Senator Sean D. Barrett:** If you went to the Stock Exchange and re-formed your company, as you're seeking now, would there be long-term finance because isn't that one of the faults, we used short-term finance for the long-term asset of a house?

**Mr. Michael O'Flynn:** When you say-----

**Senator Sean D. Barrett:** Would the Stock Exchange or pension funds ... what alternative could we do for finance?

**Mr. Michael O'Flynn:** I think it has to be a lot more equity-based and that will ... certainly more public companies, more institutional investment. We don't have a tradition of institutional investment like you do in the UK. I mean, we can ... we've developed a lot of product in the UK. You've a variety of insurance and institutional investor that you don't have here in this country, so I agree with you, Senator. I think we need to look at setting up more structures. They don't have to be public, but they need to be quasi-public in terms of equity investment, because that's the key. But the equity people won't touch a cost-based model. It doesn't work. This cost-based model has serious flaws in it and I don't see any leadership to recover the industry except, "Leave it happen", and, if that happens, prices will go the wrong way again, Chairman, but the ordinary people won't be able to build houses, or buy houses, and you'll have more social housing requirement in time.

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**Senator Sean D. Barrett:** We'll bear that in mind when we consider the report. Thanks very much.

**Mr. Michael O'Flynn:** That's okay.

**Senator Sean D. Barrett:** Yes, thanks, Chairman.

**Chairman:** I'm going to start wrapping things up and I just ... some more overhanging stuff, just before close of business, but I'll work on the opening things up. Deputy O'Donnell, three minutes.

**Deputy Kieran O'Donnell:** If Blackstone had succeeded in their court case with you, what would have been the implications for the O'Flynn Group? Can I ask?

**Mr. Michael O'Flynn:** Chairman-----

**Chairman:** That's a legal process. It had an outcome and it would be wrong-----

**Deputy Kieran O'Donnell:** It's concluded.

**Mr. Michael O'Flynn:** Deputy, I have a confidential agreement-----

**Deputy Kieran O'Donnell:** Okay, well, I won't pursue it.

**Mr. Michael O'Flynn:** -----a confidentiality agreement and, to be fair to Blackstone-----

**Deputy Kieran O'Donnell:** That's fine.

**Mr. Michael O'Flynn:** -----we're working well-----

**Deputy Kieran O'Donnell:** There's an obvious question that I-----

**Mr. Michael O'Flynn:** Yes, Deputy. We're working well, we've put a difficult time behind us and-----

**Deputy Kieran O'Donnell:** Okay.

**Mr. Michael O'Flynn:** -----we're managing properties for them here and in the UK and abroad and we are working with them, so I think it would be unfair of me to go into that.

**Deputy Kieran O'Donnell:** Well, then can I just ... do you believe that the developer/building sector took too much risk, we'll say, in the period from '05 onwards to '08? And did it involve groupthink amongst builder/developers, in hindsight?

**Mr. Michael O'Flynn:** Yes, well, one of the risks that happened, and I think this will resonate with a number of the questioners today, is that we ... the "subject to planning" was always part and parcel when I went building first in the '70s and '80s. Unfortunately, the banks decided that "subject to planning" wasn't necessary anymore.

**Deputy Kieran O'Donnell:** From what date?

**Mr. Michael O'Flynn:** Sorry, what date?

**Deputy Kieran O'Donnell:** From when?

**Mr. Michael O'Flynn:** I'd say it was in the early 2000s.

**Deputy Kieran O'Donnell:** Okay.

**Mr. Michael O'Flynn:** And that “subject to planning” was a huge comfort to the bank, but also to the builder.

**Deputy Kieran O'Donnell:** Builder, yes.

**Mr. Michael O'Flynn:** And that day is gone and should never have changed. So that was a risk that we took on. That's the ... that was a speculation risk that came into our business model.

**Deputy Kieran O'Donnell:** Previously wasn't there?

**Mr. Michael O'Flynn:** Wasn't there previously. You could ... not alone were you subject to planning, but you were often phasing the development purchases. That happens a lot in the UK and I think the model is going to become a lot more sophisticated and refined. One of the challenges are you have to have platforms to receive money but those platforms have to have good governance, good management and will have to have a percentage equity that actually makes sure you don't end up in this situation ever again.

**Deputy Kieran O'Donnell:** And the final question ... the final question then, Mr. O'Flynn is, have we reached an equal ... an equilibrium point, where the cost of building the family home, the three-bedroomed, semi-detached house is at the same ... at a level where builders like yourself will build those homes?

**Mr. Michael O'Flynn:** Not everywhere. That depends on development charges, like Senator Barrett mentioned a few moments ago-----

**Deputy Kieran O'Donnell:** Yes.

**Mr. Michael O'Flynn:** There are some places that will not be viable for a long time to come.

**Deputy Kieran O'Donnell:** I suppose the question I'm really asking you-----

**Mr. Michael O'Flynn:** There's also the restriction in the Central Bank lending, I think is unfortunate at the time it came. Because you have to have viability before you have restrictions. You ... if you're struggling with viability and you have restrictions, that's really difficult. And a house in one part of Ireland compared to a house in another part of Ireland. Like, you have to look at viability, the appraisal and different parts of the country. And I go back to ... it has to be ... it has to be affordable. And I think that it's a sophisticated ... it's a serious problem and it needs a very sophisticated solution. And I think there are ... were some announcements by the Government that we left X number of houses built by NAMA and whoever. Look, it's not going to happen. So we need to face up to the fact that we've a problem, we're not dealing with it and we have to start dealing with it sooner or later - otherwise the problem gets bigger.

**Deputy Kieran O'Donnell:** Thank you.

**Chairman:** Thank you very much, Deputy O'Donnell. Senator MacSharry.

**Senator Marc MacSharry:** No further questions.

**Mr. Michael O'Flynn:** Thank you.

**Chairman:** I'm going to wrap things up. Mr. O'Flynn, just asking you since you've exited

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out of NAMA, or in the period exiting out of NAMA, and as you said earlier you see yourself as a builder, you were never a speculator but development is part of building. How many houses have you built since you exited NAMA?

**Mr. Michael O’Flynn:** Well, since ... we’ve only exited NAMA a year ago, we’re currently on site in Lucan in Dublin and we have a number of schemes, as soon as we finalise our exit, for the development land in Blackstone. We should be on site, I’d say, within three months on a number of Cork sites.

**Chairman:** Okay, thank you. Is there anything you’d like to add by means of final comments? Just got me into trouble earlier, so please don’t do it again.

**Mr. Michael O’Flynn:** No, Chairman. I ... all I would say is some of the issues around them, the cost and I think ... I think the Senators and Deputies around this table know the points as well as I do-----

**Chairman:** Yes.

**Mr. Michael O’Flynn:** -----in terms of ... I really would like to see something done about the cost of funding and the constituents that make up a ... building a house, including the VAT and all the various charges. And perhaps look at ways of making it ... keeping it affordable. But re-establishing, you know, a model. Be that a special senior debt structure for development is found, I’m not really suggesting, but some way needs to be found to make development viable again. That’s all.

**Chairman:** Okay, thank you. So with that, I’d like to bring this session to a conclusion. In the ... prior to suspending for maybe just about five minutes as we, when we go back into private session. I’d like to thank Mr. O’Flynn for his participation this evening with the inquiry and for his engagement with it. And to now formally excuse you. So I now propose that we suspend for five minutes and return in private session, is that agreed? Agreed.

Sitting suspended at 10.29 p.m. and resumed in private session at 10.34 p.m. The joint committee adjourned at 11.40 p.m. until 9 a.m. on Thursday, 23 July 2015.