

ANZVGN 2 VALUATIONS FOR MORTGAGE AND LOAN SECURITY PURPOSES

1.0 INTRODUCTION

1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members undertaking valuations of property, plant and equipment for mortgage and loan security purposes.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope

This Guidance Note applies to members producing valuation reports for mortgage and loan security purposes. As there are many types of assets and various levels of reporting, the member should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This Guidance Note is not intended to outline methods of valuation of any particular type of asset but may comment on matters that should be addressed in reports in respect of certain property types or uses. Where appropriate, methods of valuation are covered in other guidance notes.

1.4 International Valuation Standards

This Guidance Note is intended to be consistent with the publication *International Valuation Standards 2007* as issued by the International Valuation Standards Committee. However, there may be departures from IVSC Standards to reflect Australian and New Zealand law and practice.

1.5 The Role

In addition to the responsibilities covered in IVS 3, IVA 2 and ANZVGN 1 the Member's role is to advise:

- the market value of the assets for mortgage and loan security purposes at the date of inspection. Market trends may also be advised.
- factors that can or could impact adversely on the property as a security. The Member may attempt to quantify the adverse impact or risk or draw the client's attention to the need for re-assessment should these risks eventuate.

2.0 INSTRUCTIONS

2.1 Instructions from Lender

It is desirable that all instructions to Members to undertake market valuations for mortgage and loan security purposes should be received from the lender and not from the borrower. It is important that the contract should be between the party relying on the valuation (the lender) and the member. Lenders should issue instructions direct to the firm/member.

2.2 Other Instructions

It is recognised that intending mortgagors (borrowers) may instruct members to provide a valuation for borrowing purposes. This is considered an undesirable practice because of the potential impact particularly of insurance cover, in some cases.

3.0 REPORT CONTENT

3.1 Recommendation

In Australia, unless specifically requested by a lender, a recommendation should not be made as to the suitability of the asset as a security

as this is a commercial decision of the lender, which may involve other factors. It is however appropriate to comment on asset-specific and market factors impacting adversely on the asset (see Risk Analysis), as well as positive aspects. Unless required by State or Federal legislation it is not generally appropriate for the Member to recommend a maximum or minimum loan percentage or amount or recommend a loan period.

3.2 Risk Analysis

A Member should advise the lender of factors that could impact adversely on the property as a security. This may include those factors which, assessed on information that is common knowledge, readily ascertainable in the market and/or reasonably foreseeable, may have an adverse impact on the property's value and marketability.

3.3 Risk Rating

In the case of real property a rating method can be used as part of the risk analysis. The rating adopted for each aspect of any risk analysis needs a balanced overview. A property may have many counter balancing features.

3.4 Future Value

While forward-looking advice may be provided to the client the market value assessed should not attempt to predict future value levels. .

3.5 Pro-Forma Reports

To assist its Members to serve residential mortgage clients, the API has developed the PropertyPRO 'Residential Valuation and Security Assessment' pro-forma report and supporting memorandum for mortgage purposes.

3.6 Alternative Use Value

When the value of a property on a vacant possession basis is, or is likely to be, significantly different from the value of the property subject to an existing lease or, when the value of a property purpose-designed for the occupier has an alternative use value which is significantly different, then both values should be reported to ensure that a mortgagee/lender is fully informed. If leased, the valuer should draw attention to the potential for different values to be applied.

4.0 VALUATIONS ON AN 'AS IF COMPLETE' BASIS

4.1 Valuation of Proposed Improvements

A 'Value As If Complete' valuation assumes the proposed work is already complete at the date of inspection and reflects the market at that date. The Member assesses the value from plans and specifications having regard to the market at the date of inspection. In the original valuation, the member should reserve the right to review the valuation, and if necessary, vary the valuation if there are changes in the property itself or in property market conditions and prices.

4.2 Instructions

Instructions from clients to value proposed improvements to be erected should include:

- A copy of the builder's quotation, contract or tender or in the case of an owner-builder a schedule of costs on a trade by trade basis and including as relevant, the builder's licence number or the owner-builder's licence number
- A copy of plans and specifications, however council approved and stamped copies should be sighted prior to completion if not available at the time of instruction (in which case the valuation should be appropriately qualified);
- Engineer's details of the proposed building for concrete slab floors and other structural elements as applicable
- A copy of any accepted tender or builders quote
- Full Prime Cost and/or provisional cost allowance item list noting any works not being carried out by the builder
- A copy of any agreement to lease or other form of pre-commitment if applicable.

4.3 Information Not Available

If the above information is not made available to the Member, this should be drawn to the attention of the lender and further information requested.

4.4 Member's Building Qualifications

In undertaking a valuation of a property on which the dwelling or project is to be erected, a Member should not hold themselves out as having qualifications in a building/structural discipline unless they have such qualifications.

4.5 Cost Estimates and Inspections by Others

In the event that Members are not qualified in a building/structural discipline, they should recommend and advise the client that an assessment of costs or a report on any departures from acceptable standards of construction and/or relevant Australian and New Zealand Construction Standards, be provided by another suitably qualified person, e.g. Engineer, Architect or Quantity Surveyor.

4.6 Advise Significant Difference Between Costing and Tender

If a Member has appropriate costing expertise a check costing can be made and discrepancies noted.

4.7 'Value As If Complete' Qualifications

A Member in assessing the Market Value of a property based on plans and specifications and/or a proposed lease(s) on an "As If Complete" basis should be subject to qualifications such as:

- Satisfactory completion of the improvements in accordance with the plans, specifications and details as provided
- An inspection by the Member following practical completion of construction
- Confirmation or variation of the original valuation figure relevant to the original valuation date, following an inspection of the project and any leases after practical completion
- Issue of all relevant approvals including a satisfactory building completion certificate under the appropriate legislation
- Sighting of any reports from other experts who have provided advice in aspects of the construction of the buildings
- Such other matters/issues that the Member is of the opinion should be drawn to the attention of the client
- The right to review and, if necessary, vary the valuation if there are changes in the project itself or leasing

4.8 Confirmation at Original Valuation Date

Any confirmed or varied valuation will relate to the market conditions existing at the date of the original valuation. An updated figure may be provided at the specific request of the client and additional fees may be chargeable for this review.

4.9 Value under Construction

If construction is in progress and an 'as is' value is also required, consideration should be given as to whether or not the cost of the work to date is fully reflected in value. It should not be assumed that the added value of the work to date equals the cost of the work. Comment could also be made about the marketability of a partly completed project.

4.10 Significant Repairs and/or Renovations

Where significant repairs and/or renovations are involved, a valuation on an 'as if complete' basis may also be required. A Member should ensure that the current condition of the property is appropriately described in any description of improvements, and the existing and proposed improvements should be addressed separately.

5.0 CHATELS

5.1 State if Included

Chattels are not normally included in a valuation of real property if such items are included, this must be clear to the reader of the report. Chattels are regarded at law as personal property and are not included in a mortgage. In Australia the API supports the inclusion of the following items in residential mortgage valuations:

- fixed floor coverings,
- window coverings, and
- light fittings.

In New Zealand, the PINZ supports the exclusion of the above items in residential mortgage valuations.

Chattels not included are items such as furniture that is not built in, loose floor coverings, lamps and items not fixed with the intent that they should not remain in place and pass with a sale of the property.