

“Desktop” and “Drive-by” at loan origination What does it mean for property valuers?

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“Desktop” and “drive-by” at loan origination?

THIS IS NOT AN OPTION ?

EU LAW - CAPITAL REQUIREMENTS REGULATION (CRR)

The EU has to safeguard the banking system and one of the pillars of that is the Capital Requirements Regulation.

Article 229(1)

*“For immovable property collateral, the collateral shall be valued by an independent valuer at or at less than the **market value**...*

*In those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value ...the property may instead be valued by an independent valuer at or at less than the **mortgage lending value**... “*

CAPITAL REQUIREMENTS REGULATION Continued

Article 208 provides the following requirements on “**monitoring of property values**” and on “**property valuation**”:

- a) *institutions **monitor** the value of the property...at a minimum once every year for commercial immovable property and once every three years for residential real estate. Institutions carry out more frequent monitoring where the market is subject to significant changes in conditions;*
- b) *the property valuation is **reviewed** when information ...indicates that the value of the property may have declined materially relative to general market prices and that review is carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. For loans exceeding EUR 3 million or 5 % of the own funds of an institution, the property valuation shall be **reviewed** by such valuer at least every three years.*

Institutions may use statistical methods to monitor the value of the property and to identify property that needs revaluation.”

PUROSES OF VALUATION UNDER CRR AND THE TEGoVA POSITION

- 1) Loan Origination – Full Inspection and Report
- 2) Monitoring - Use of AVMs / Drive-by and Desktops allowed
- 3) Review – Full Inspection and Report

EUROPEAN BANKING AUTHORITY CONSULTATION ON DRAFT GUIDELINES ON LOAN ORIGINATION AND MONITORING (9/2019)

195. *“Institutions should set policies and procedures specifying the approaches to be used by the valuer (e.g. desktop, drive-by or full visit with internal and external assessment of the property) for different types of immovable property collateral ensuring that such approaches are prudent and proportionate to the type and potential values of the collateral and in relation to the credit agreements.*”

*For the valuation of an immovable property by a valuer, institutions may consider using desktop or drive-by valuation approaches **only in the cases of valuing or revaluing immovable property collateral... that is of similar design, specifications and characteristics to the ones already valued or re-valued by a valuer, e.g. similar apartments in the same apartment block.**”*

TEGoVA RESPONSE TO EBA PARAGRAPH 195

The Guidelines fail to respect and protect the interests of consumers because :

PARAGRAPH 195 allows institutions to consider using desktop or drive-by valuation approaches at loan origination. The idea is that this is acceptable if a valuer has already valued a similar property. And yet:

- “Similar” is such a vague term. Where does ‘similarity’ stop? Who decides? a banker or a valuer? Banks will be free to interpret creatively.
- Different apartments in the same block can vary from derelict to recently renovated.
- The quality and true extent of the works can’t be verified without inspection. Different apartments in the same block have different views, different access to light and different noise exposure.

THE TEGoVA RESPONSE TO PARAGRAPH 195 Continued

It is important for bank regulators to understand just how crude 'drive-by valuation' is. Under no circumstances should desktop or drive-by be envisaged at origination.

- The breach of the origination red line by these EBA Guidelines works against the borrower's interest
- It is valuation at origination which most closely concerns consumer protection
- Borrowers need an accurate estimation of the value of this life-shaping transaction and indebtedness.

In light of the above, TEGoVA recommends the deletion in paragraph 195 of words which would allow drive-by or desktop valuation on loan origination.

THE TEGoVA RESPONSE TO EBA PARAGRAPH 211

Para 211. *“Where the conditions for a review in Article 208(3) of Regulation (EU) No 575/2013 are met, institutions should update the value of the immovable property collateral through a revaluation carried out by a valuer **or through adequate advanced statistical models accounting for individual characteristics of the property, where such models are not used as sole means for the revaluation.**”*

Paragraph 211 seems to say that when there's suspicion that value may have declined, it is acceptable to use *either* a valuer *or* statistical models ... **“where such models are not used as sole means for the revaluation”**, it being explained on p. 82 that this means simply that the AVM report has been “checked” by a valuer.

TEGOVA considers that a qualified valuer who does nothing more than ‘check’ the AVM report to see if it seems accurate but who himself never inspected the property nor has any special knowledge of it, brings very little quality and accuracy to the process.

Thus TEGoVA Recommends deletion of the words in Para 211 in bold above.

AND FINALLY A WARNING FROM THE RECENT PAST

The use of desk-top and drive-by valuations was one of the reasons for the financial crisis, as was stated in the final report of the parliamentary committee of inquiry of 27 January 2016 regarding the **Irish banking crisis**:

*“More widely, however, the demand for asset valuations increased significantly as the property boom took hold and reliance on informal valuation standards, **such as ‘desktop’ and ‘drive-by’ valuations**, became more prevalent. These did not involve any physical inspection of the property, but were a limited (and sometimes fully automated or computer generated) process of estimating value.”*

<https://inquiries.oireachtas.ie/banking/wp-content/uploads/2016/01/02106-HOI-BE-Report-Volume1.pdf>

Thank You!

