AUSTRALIAN BANKERS' ASSOCIATION INC.
Strong banks – strong Australia

Level 3, 56 Pitt Street
Sydney NSW 2000
Australia
+61 2 8298 0417
@austbankers
bankers.asn.au

Industry Guideline: Appointing property valuers when lending to small businesses and primary producers

This industry guideline does not have legal force or prescribe binding obligations on individual banks. While the Australian Bankers' Association (**ABA**) industry guidelines are voluntary, they are developed with input from, and agreed support by, member banks. The ABA encourages members to use this industry guideline in their internal processes, procedures and policies.

Purpose

This industry guideline explains bank property valuation practices and outlines the minimum standards customers can expect of banks when they appoint an external valuer to assess the market value[1] of a commercial or agricultural property[2] for loan security purposes.

The first section of this document provides guidance for banks on industry best practice.

The second section includes FAQs to help customers and other interested parties understand how and why banks use valuations. It is important that business customers understand the purpose of valuations and their relationship to business lending.

Section 1: Principles for industry practice

To ensure fair, ethical and transparent practices when using external property valuers, banks will at all times endeavour to follow these principles:

Communicate clearly and honestly

- Banks should explain the purpose and reason for the valuation to the customer, including the instructions provided to the valuer. The valuation is undertaken (on behalf of the bank) for loan security purposes and is intended to provide an independent assessment of the value of the security that can be realised in the event that the customer is unable to meet their loan commitments or repay the loan[3]. The value may therefore differ from an appraisal given for another purpose, for example, by a real estate agent.
- Explain that the value of the property asset can change over time in line with market conditions. Valuations are assessed at a point-in-time generally viewed as current by the bank for a 90 day period from the date of valuation. This means that new valuations are required for extension and/or roll over of existing facilities beyond this period.
- Explain the customer is required to pay for the valuation as this is part of the administration of the credit facility.

---

[1] Market value is defined by the International Valuation Standards Council (**IVSC**) and the property measurements are reported in accordance with the International Property Measurement Standards produced by the International Property Measurement Standards Council (**IPMSC**). Market value is the estimated amount for which as asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (IVS definitions).

[2] Property is both real and personal as defined by International Valuation Standards.

[3] APRA Prudential Standard APS 220 on Credit Quality4 (APS 220) sets out the requirements for how property to be held as security against loans should be valued.

- Banks should explain that the customer will need to provide the valuer with reasonable access to the property in order for the valuer to complete the inspection. Depending on the type of property and the basis of valuation the valuer may require additional information from the customer in order to complete the valuation, for example, building plans, building development approvals, building inspections, environmental assessments, lease documents and tenancy information, and financial statements.

Be transparent in the selection of the valuer

- It is standard industry practice for banks to use a panel of preferred independent external valuers to undertake valuations under strict industry standards.[4] The bank will invite approved valuers to quote for the valuation work and allow the customer to select the valuer from the quotations provided. There may be circumstances where it will be difficult to provide the customer a choice from a panel, for example, where specialised expertise or business knowledge is required or in remote areas where there are limited valuers with local knowledge and expertise.
- Banks should provide a full copy of the valuation instructions (including any variations) and the valuation report to the customer where the customer has paid for the valuation. An exception to this is where an enforcement action[5] is underway as the information in the valuation is commercially sensitive e.g. the customer could potentially pass the information to a prospective bidder. Where enforcement action is underway, the valuation would be provided to the customer at a later stage.
- Where a customer believes there is a significant difference between their expectations of the value and the independent assessment of the value of a property, for example compared to a valuation within the last 12 months, the customer should provide feedback to the bank in writing and include any additional supporting information that may not have been considered by the valuer. In the first instance the bank should ask the valuer to review any additional information and provide additional commentary supporting the valuation to enable the customer to better understand the reasons why there is a significant difference.
- In some instances a second valuation may be obtained from the bank's valuer panel. This will be done at the discretion of the bank and in most cases the customer would need to pay for the valuation. It should be explained to the customer that in most cases the bank will consider the lower of the two valuations.
- If further action is required, the bank should have a constructive discussion with the customer about the valuation and what this could mean for their credit contract.

Appoint an appropriately qualified practitioner

- Banks will use appropriately qualified and experienced valuers who are members of the Australian Property Institute (**API**), the Royal Institution of Chartered Surveyors (**RICS**) and the American Society of Appraisers (**ASA**), or organisations which abide by a similar Code of Practice and have training and monitoring procedures equivalent to these organisations. This means valuers:
    - Comply with regulatory requirements governing licensing or registration.
    - Comply with annual compulsory training requirements.
    - Comply with the Code of Ethics and Rules of Conduct of their respective organisations.

[4] Produced by the International Valuation Standards Council (IVSC) which impose minimum requirements on individuals who undertake valuation and measurement work which include ethical, competence and technical requirements.
[5] Enforcement action is taking possession and exercising a power of sale under the mortgage.

Strong banks – strong Australia

- Have suitable and current professional indemnity insurance cover, and where appropriate are members of Limited Liability Schemes approved under the Professional Standards Legislation.

Provide clear and reasonable instructions to the valuer

- Banks will provide the valuer with all instructions and variations of instructions in writing. The instructions should be discussed with the customer prior to providing these to the potential valuer and the valuer being asked to provide quotes.
- Banks should require the valuer to undertake the valuation based on International Valuation Standards.[6] This includes the condition that the bank requires the valuation to represent the market value of the property.
- Valuers must not undertake any valuations where a conflict of interest may occur. The **API**, the **RICS**, the **ASA** regulations prohibit valuers taking on assignments where there is a conflict of interest.

[6] Produced by the International Valuation Standards Council (IVSC) which impose minimum requirements on individuals who undertake valuation and measurement work which include ethical, competence and technical requirements.

Strong banks – strong Australia

Section 2: Understanding your rights and obligations as a customer

What do banks consider when they assess small business lending?

When assessing a business loan application or extension of an existing credit facility, a bank will consider a number of factors, including the borrower's:

- Personal circumstances and their past credit history
- Current financial position
- Ability to service and repay the loan, and
- 'Security' for the loan or rollover of the facility.

To determine the value of the security the bank may commission an independent property valuation. The valuation is addressed to the bank and the bank provides a copy to the customer on a non-reliance basis.

The value for security purposes is intended to provide a source of repayment of the business loan in the event that the customer is unable to meet their loan commitments or repay the loan.[7] This is not the same as an opinion on a potential sale price of a property that might be provided by a real estate agent.

If the facility is being extended or rolled over, a new valuation may need to be undertaken to ensure the value of the asset is current.

Why do banks use property valuations?

Valuations are generally undertaken by banks for four reasons:

1) To determine the value of the property in the initial funding approval process.
2) To ensure existing obligations are met during the course of a review of existing facilities, such as the security position and agreed loan valuation ratio.
3) To determine changes in lending arrangements, such as an increase in the credit limit, when a variation in the credit facility is requested.
4) During the course of the sale of assets subject to the bank's security.

It is important to note that the **property valuation is only one of a number of criteria** the bank will use to assess lending applications or rollovers of existing credit facilities.

Why do banks use external property valuers?

Property valuers are engaged by banks to provide an **independent** professional assessment of the value of the property and allow the bank to assess the suitability of the property as security for the loan.

The value of the asset is assessed at a point-in-time which can change over time in line with market conditions. As such, valuations are generally current for a 90 day period from the date of valuation.

What is the valuer's role?

The valuer is contracted by the bank to provide an independent valuation.

Valuations are conducted in accordance with the International Valuation Standards.[8]

[7] APRA Prudential Standard APS 220 on Credit Quality4 (APS 220) sets out the requirements for how property to be held as security against loans should be valued.
[8] Produced by the International Valuation Standards Council (IVSC) which impose minimum requirements on individuals who undertake valuation and measurement work which include ethical, competence and technical requirements.

The valuer should not make assumptions that have not been agreed with the instructing bank. Where assumptions have been agreed, they must be identified in the valuation and state the impact on valuation. For example, if the valuer assumes a property may benefit from a Development Approval which has yet to be achieved, the instructions and this information should be shared with the bank customer.

As a bank customer, you are a third party to a valuer. You will, however, be required to provide the valuer with reasonable access to the property and relevant information in order for the valuation to be completed.

Customers should be aware that the valuation document is provided to the bank and cannot be used by the customer for another purpose, for example, other legal proceedings. Bank customers are strongly advised to obtain their own valuation for any other purpose other than the provision of secured lending.

How is the valuer selected?

It is standard industry practice for banks to use a preferred list (panel) of independent external valuers to undertake valuations under strict industry standards.[9]

The valuers will be considered an expert in the relevant property asset class or location (commercial, retail, industrial, rural) and be appropriately qualified. This process ensures that valuations are provided by skilled valuers with no undue influence from the bank or customer.

The bank will ask members of their expert valuation panel (for example, three valuers) to provide quotations and in most cases the customer will be able to select the valuer from these quotations. There may be circumstances where it will be difficult to provide the customer a choice from a panel, for example, where specialised expertise or business knowledge is required or in remote areas where there are limited valuers with local knowledge and expertise.

The valuer must be independent of the bank and the customer. There are processes in place to ensure the chosen valuer is independent.

What is the valuer's relationship with the bank?

The valuer is independent of the bank. They are contracted by the bank to provide an independent expert opinion. There may be circumstances where there are limited qualified valuers available, for instance where a property is located in an isolated area or specialist business knowledge is required. The valuation is addressed to the bank and the bank provides a copy to the customer on a non-reliance basis. .

Valuer accreditation and professional standards

There is one Australian professional body and two international bodies whose members value security for commercial loans using International Valuation Standards – the Australian Property Institute **(API)**, the Royal Institution of Chartered Surveyors (**RICS**) and the American Society of Appraisers **(ASA).** All have a code of ethics and require members to have a minimum level of certified experience and tertiary education.

If the valuer has breached the code of ethics or behaved in an inappropriate manner, a complaint should be made with the appropriate professional body.

[9] Produced by the International Valuation Standards Council (IVSC) which impose minimum requirements on individuals who undertake valuation and measurement work which include ethical, competence and technical requirements.

Resolving a dispute about a valuation

Where you have a significant (factual) concern about a valuation or valuer, you should explain the reason to your bank in writing. In the first instance the bank should ask the valuer to review any additional information and provide additional commentary supporting the valuation to enable the customer to better understand the reasons for the difference. In some instances a bank may consider obtaining a second valuation from the bank's valuation panel, noting that the customer will generally be required to pay for the second valuation.

In the event that you have a complaint about the conduct of a valuer, the professional organisations (referenced within this guideline) have the power to investigate complaints against members in relation to their professional conduct.

Resolving a dispute with your bank

All banks have internal procedures in place to deal with complaints from customers. In many cases, a complaint regarding a bank and its products and services will be resolved internally by the bank with no further action required.

If the dispute can't be adequately resolved, the customer can lodge a dispute with the Financial Ombudsman Service (**FOS**), the independent external dispute resolution scheme. FOS can require a bank to pay monetary compensation to the customer. It has time limits for lodging a dispute.

Code of Banking Practice

The Code of Banking Practice sets out the banking industry's key commitments and obligations to customers on standards of practice, disclosure and principles of conduct. The Code applies to personal and small business bank customers.

For a copy of the Code visit the ABA website (http://www.bankers.asn.au/consumers/code-of-banking-practice/) or ask your Bank.

About the ABA

With the active participation of 24 member banks in Australia, the Australian Bankers' Association (**ABA**) provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services.

The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.