

# VALUATION of RESIDENTIAL PROPERTIES for MORTGAGE PURPOSES

**PS 9.1 Residential mortgage valuations (except in relation to further advances)**

**PS 9.1.1** Except to any extent notified by or agreed in writing in advance with the Client, the Valuer is to comply with the Specification reproduced in Annex A to this Practice Statement in valuing residential properties on behalf of building societies, banks and other lenders, for mortgage purposes.

**PS 9.1.2(a)** If not previously agreed, terms of engagement should be settled in writing with the Lender before instructions are accepted. Model Conditions of Engagement are provided in Annex B to this Practice Statement and should be used if the Valuer wishes to rely upon the terms of the Specification in that Annex A as defining the task which is to be undertaken. If the Valuer has no written or previously established instructions from the Lender/Client, it is suggested that the Valuer should write confirming the intention to provide a service in accordance with the RICS/ISVA Specification for the Valuation and Inspection of Residential Property for Mortgage Purposes on Behalf of Building Societies, Banks and Other Lenders. A copy should be enclosed and confirmation of its acceptability sought in this, and any future cases in respect of which the Valuer may be instructed by the Client.

(b) Where the terms of engagement, documents referred to therein and the Client Lender's instructions in the particular case together cover the matters listed at (a) to (n) of PS 2.2.2, there is no requirement upon the Valuer to confirm in writing receipt of instructions in respect of that case.

**PS 9.1.3** It is unlikely that any Lender will seek to limit the normal inspection procedures of the Valuer. If this should happen, such limiting instructions should be confirmed in writing beforehand and also incorporated in the Report. There is no obligation upon the Valuer to undertake any off-site enquiries.

**PS 9.1.6** The Building Societies Act 1986 differentiates between those who are authorised to assess the advance from those who make the valuation for the advance. The duty of the assessor is to decide on the amount of the loan, the duration and other conditions. The Valuer's job is limited to assessing the adequacy of the security. Valuers, therefore, must neither accept instructions to make, nor volunteer recommendations as to the length of the term or the amount to be advanced. These decisions are solely the responsibility of the Lender.

**PS 9.2**        **Reinspection of residential property for mortgage purposes**

**PS 9.2.1** This paragraph covers 'reinspections' carried out for building societies, banks and other Lenders to which this Practice Statement applies.

**PS 9.2.2** A 'reinspection' is a further visit to a property which has already been accepted in principle by the Lender as suitable security for an advance of a specified amount, so that the Valuer can advise in all of the following cases whether the previous Valuation Report (which must always be available to the Valuer) remains sufficient to enable the Lender to assess the adequacy of the security when deciding whether or not to release the retention or stage payment:

(a) in connection with consideration of the release of money by way of stage payments applicable to the stage of construction reached; or

(b) as to whether the (new, or newly converted or improved) property has been completed to the state assumed in the initial mortgage valuation report (a mortgage offer having been made in consequence thereof but no advance actually made); or

(c) in circumstances where, part of the advance having been retained until specified works have been undertaken, whether those works have apparently been completed as assumed in the initial Valuation Report, or as otherwise specified by the Lender, to a standard satisfactory to justify lending on them and without significantly affecting the value of the property adversely.

**PS 9.2.3** If, in the course of inspecting the parts of the property with which the service to be provided by the Valuer is concerned, the Valuer:

(a) becomes aware of any material changes or factors, additional to those in the previous Report which would affect the valuation of the proposed, completed security: or

(b) is aware of any other factor which might materially affect the valuation: or

(c) is of the opinion that the valuation of the proposed completed security would be materially different from that previously reported,

the Valuer must report accordingly. Subject to the Lender's specific policy, the Valuer may then be instructed to carry out a revaluation.

**PS 9.2.4** In these cases the Valuer's duty is to inspect, to the extent described in Annex A to this Practice Statement, those parts of the property with which the service to be provided by the Valuer is concerned. It is not the task of the Valuer to inspect the whole property.

The Valuer must, however, advise the Lender if in the course of the inspection:

(a) it is considered that the property may have been affected adversely by the works carried out; or

(b) new defects and/or repairing requirements and/or unsatisfactory workmanship are observed; or

(c) It is apparent that the problem which gave rise to the need to carry out the remedial works is now affecting another part of the structure or that part of the structure which is the subject of the required inspection is suffering from a further defect.

Unless asked to do so, the Valuer has no duty to provide a new figure for reinstatement insurance purposes.

**PS 9.2.5** If no form is provided by the Lender, the Model Report Forms shown at PSA 10 may be used, on the terms stated in a note within it, to form the basis of the Report. Attention is drawn to the caveats and warnings which Valuers are encouraged to include in their Reports, whether or not the Lender makes provision therefor and to recommend that copies of their Reports are provided to the Borrowers.

**PS 9.3**      **Valuation of residential property in relation to further advances**

**PS 9.3.1** This paragraph covers a valuation provided on a property already in mortgage to the lending institution instructing the Valuer, where the lending institution proposes to consider whether a further advance, usually of a specified sum, can be made on the security of the property, or the repayment of a loan rescheduled. The valuation may be of the property as it stands and/or with works proposed to it. Wherever possible the Lender provides to the Valuer the original Report or a copy.

**PS 9.3.2** The Valuer's remit is to provide a report on:

(a) the current Open Market Value of the property;

(b) the current Open Market Value, where defined works are contemplated, on the assumption that they have been satisfactorily completed, and a revised estimate for insurance purposes;

(c) any factors likely to affect its value materially; and

(d) changes in the accommodation or its amenities since the previous inspection report.

**PS 9.3.3** The matters which a Valuer should consider in preparing the valuation and the extent of inspection are the same as those described in the Annex to this Practice Statement, to which reference should be made.

**PS 9.3.4** It occasionally happens that a Valuer is asked for an opinion on a valuation without inspection. If such an opinion becomes available to a member of the public, including the Borrower, there is a danger of its being misunderstood or misquoted. When a Valuer does provide such an opinion (which should be expressed as approximate) it must be written or confirmed in writing and the manner of valuation and the restrictions under which it is given clearly stated. The Lender must be informed that the value stated in such a fashion must not be quoted to the Borrower or any other party.

**PS 9.3.5** The presentation of the valuation report will normally be dictated by the prescribed form provided by the Lender. In the absence of any such form the Valuer may wish to use the sample form shown in PSA 11 Consent to do so is given in the terms of a note within PSA 11.

**PS 9.4**      **Valuation of residential property in connection with possible possession proceedings**

**PS 9.4.1** This paragraph covers valuations carried out for building societies, banks and other mortgagees to which this Practice Statement applies, where the lending institution is considering whether to take possession of the property. If the Valuer is instructed to produce the valuation without inspection of the inside of the property or with limited information, PS 2.3.1 applies.

**PS 9.4.2** Here the Lender's requirement is for an estimate of the price which could be achieved if the property was put on the market at the date of valuation. Accordingly an Estimated Realisation Price (ERP) is required. Notwithstanding PS 3.1.2, there is no obligation to provide also an Open

Market Value unless so instructed by the Client. In view of the purpose of the valuation the ERP must be made with the additional assumption that at the date of valuation the property is vacant, The Client Lender should be recommended to consider the extent to which fixtures and fittings present in the property at the valuation date and included in the valuation may not be present if and when the property is offered for sale by the Client Lender.

**PS 9.4.3** If the lending institution requests a 'forced sale value' the Lender must be advised that this is an inappropriate basis and that Estimated Restricted Realisation Price (ERRP) is the more appropriate. An ERP must be provided also. The additional assumption referred to in PS 9.4.2 is to be applied in both cases.

**PS 9.5**            **Valuation of  
repossessed  
residential  
property**

**PS 9.5.1** This paragraph covers valuations carried out where the lending institution is contemplating the sale of repossessed residential property. Detailed guidance, *The Effective and Efficient Sale of Repossessed Residential Property*, published by the National Association of Estate Agents, of which the Institution was a joint author, was provided in November 1994. Part I of that guidance lists the nature of professional advice which lenders are recommended to obtain before deciding on the appropriate mode of sale. Since in normal circumstances the property will already be in possession when the valuation is requested, the appropriate valuation bases are the Estimated Realisation Price (ERP) and the Estimated Restricted Realisation Price (ERRP), In the case of a recommendation that private treaty is the appropriate mode of sale, the recommended asking price may be required also.

**PS 9.5.2** The provisions of PS 9.4.2 and PS 9.4.3 above apply also to this paragraph.

**PS 9.5.3** On occasion lenders may wish to seek confirmation from an Independent Valuer that the property has been marketed properly in accordance with the agency instructions and that it is that Valuer's opinion that the provisionally agreed sale price is the best reasonably obtainable in the light of prevailing market conditions and the extent of marketing undertaken.

**PS 9.5.4** It is never appropriate to provide valuations or opinions on the lines described in this paragraph without an adequate inspection of the property and the relevant information and investigations.

**PS 9.6**        **Valuations of residential property for investment for mortgage purposes**

**PS 9.6.1** PS 9.1 applies subject to the following.

**PS 9.6.2** Where the Lender advises the Valuer that the borrower intends to let the property for residential purposes, the Lender should advise also whether the Valuer is (a) to value the property with vacant possession, or (b) subject to an assured shorthold tenancy(ies) on market terms, or (c) subject to such other terms as the Lender advises. In the case of (a) the Valuer must include in his Report a sentence to the effect that the Lender has advised that the property is to be let and that this may affect adversely the valuation reported, if the Valuer believes this to be the case. In the case of (b) or (c) the Valuer must state that he has made the special assumption that the property is let on an assured shorthold tenancy(ies) on market terms, or other stated terms (as were advised by the Lender) because he has been advised that this is intended.

**PS 9.6.3** In the event that the property is already let and is to be conveyed subject to the letting, this letting must be reflected in the valuation, unless an appropriate special assumption (e.g. at the Lender's request. that vacant possession is to be assumed) is made and stated in the Report.

# RICS/ISVA Specification for the Valuation and Inspection of Residential Property for Mortgage Purposes on Behalf of Building Societies, Banks and Other Lenders

This Specification applies to inspections carried out on or after 1 January 1998 and, in respect of such inspections, supersedes previous published Guidance. The Council of Mortgage Lenders was consulted during the production of this Specification.

1. **The Valuer's Roles**
  - 1.1 The roles of the Valuer, who must have knowledge of and experience in the valuation of the residential property in the particular locality, are:
    - 1.1.1 to advise the Lender as to the Open Market Value but usually excluding development value (see Sections 4.3 and 4.4 hereof) at the date of inspection:
    - 1.1.2 to advise the Lender as to the nature of the property (see Section 4 below) and any factors likely materially to affect its value; and
    - 1.1.3 if required by the Lender, to provide an assessment of the property's estimated current reinstatement cost in its present form (unless otherwise stated) for insurance purposes including garage, outbuildings, site clearance and professional fees, excluding VAT (except on fees).
  - 1.2 The Valuer is not to make a recommendation as to the amount or percentage of mortgage advance or the length of the mortgage term. Nor is it the valuer's responsibility to give advice as to the

suitability of the property 'for second mortgage purposes'.

## **2. The Valuer's Inspection**

Subject to the Valuer's judgement. a visual inspection is to be undertaken of so much of the exterior and interior of the property as is accessible to the Valuer without undue difficulty. Accordingly, it is to include all that part of the property which is visible whilst standing at ground level within the boundaries of the site and adjacent public/communal areas and whilst standing at the various floor levels, as follows:

### **2.1 Main Building – External**

Roof coverings, chimneys, parapets, gutters, walls, windows, doors, pipes. wood or metalwork, paintwork, damp proof courses, air bricks and ground levels.

### **2.2 Main Building - Internal**

2.2.1 Parts not readily accessible or visible are not inspected and furniture and effects are not moved or floor coverings lifted.

2.2.2 Subject to reasonable accessibility, the roof space is inspected only to the extent visible from the access hatch, without entering it.

2.2.3 Ceilings, walls, load bearers and floor surfaces are inspected except where covered or obscured. Readings are to be taken with a moisture meter for rising dampness.

2.2.4 Cellars are inspected to the extent that they are reasonably accessible, but under floor voids are not inspected.

### **2.3 Services**

The Valuer is to identify whether or not there are gas. electricity, central heating, plumbing and drainage services. Testing of services is not undertaken.

### **2.4 Outbuildings**

Garages and other buildings of substantial

permanent construction, and any structure(s) attached to the dwelling, are to be inspected.

## **2.5 Site**

The inspection is to include the general state of boundaries, structures, drives, paths, retaining walls and the proximity of trees only to the extent that they are likely materially to affect the property's value.

## **2.6 Neighbouring properties**

The nature, use and apparent state of repair of neighbouring properties in the immediate vicinity is to be considered only to the extent that they may materially affect the value of the subject property.

## **2.7 Flats, maisonettes or similar units forming part of a larger building or group of related buildings**

The above provisions apply. but here 'Main Building' means the building containing the proposed security but not including other main buildings physically attached to it.

### *2.7.1 Main Building – External*

The exterior of the proposed security and sufficient of the remainder of the Main Building to ascertain its general state of repair.

### *2.7.2 Main Building - Internal*

The interior of the proposed security, the communal entrance areas within the Main Building from which the proposed security takes access and the communal area on the floor(s) of the proposed security. The roof space will only be inspected (as defined in paragraph 2.2.2 above) where access is directly available from within the proposed security.

### *2.7.3 Outbuildings*

Garaging, car parking, other buildings (excluding sports complexes) of permanent construction and any other structures attached to the Main Building or which serve the Main Building or which serve the proposed security.

**2.8** No enquiries regarding contamination are made, but if a problem is suspected, the Valuer is to report accordingly.

**3. Valuer's Report**

**3.1** Subject to covering the matters referred to in Section I above, reporting is to be confined strictly to answering questions raised by the Lender.

**3.2** If it is suspected that hidden defects exist which could have a material effect on the value of the property, the Valuer is to so advise and recommend more extensive investigation by the intending Borrower prior to entering into a legal commitment to purchase or, in the case of a re-mortgage, as a pre-condition of the mortgage advance. It may be appropriate in exceptional circumstances to defer making a valuation until the results of the further investigations are known.

**3.3** If it is not reasonably possible to carry out any substantial part of the inspection (see Section 2 above) this is to be stated.

**3.4** Any obvious evidence of serious disrepair to the property or obvious potential hazard to it is to be reported, as should any other matters likely materially to affect the value.

**3.5** Where the Valuer relies on information provided, this is to be indicated in the Report, together with the source of that information.

**3.6** The Lender is to be informed of the existence of any apparently recent significant alterations and extensions, so as to alert the Lenders legal adviser to any enquiries to be made.

**3.7** Where the proposed security is part of a building comprising flats or maisonettes, the Valuer's Report is to identify any apparent deficiencies in the management and/or maintenance arrangements observed during the inspection which materially affect the value, and will provide the current amount or assumed amount of the service charges payable, on an annual basis.

**3.8** Where the apparent sharing of drives, paths, or

other areas might affect the value of the subject property, the Valuer is to inform the Lender.

**3.9** The form of construction is to be reported and, where nontraditional, the Valuer is to advise accordingly, stating the type of construction and the source of this information if it is not apparent from the inspection.

**3.10** Where the Valuer decides to report a necessity for works to be carried out to a property as a condition of any advance and the valuer identifies the property as being:

**3.10.1** of architectural or historic interest, or listed as such; or

**3.10.2** in a conservation area: or

**3.10.3** of unusual construction,

the Valuer is to advise that a person with appropriate specialist knowledge be asked to give advice as to the appropriate works unless, exceptionally, the Valuer believes he/she is competent to give advice which if adopted would not be detrimental to the property's architectural or historic integrity, its future structural condition or conservation of the building fabric.

**3.11** In the case of new properties or conversions where the Valuer is obliged to base the valuation upon drawings and a specification, this fact is to be stated in the Report and the reference numbers and dates of such documents recorded.

#### **4. The Valuation**

**4.1** Unless it is made apparent by an express statement in the Report, the Valuer is to make the following assumptions and will have been under no duty to have verified these assumptions:

4.1.1 that vacant possession is provided;

4.1.2 that all required, valid planning permissions and statutory approvals for the buildings and for their use, including any extensions or alterations, have been obtained and complied with;

4.1.3 that no deleterious or hazardous materials or

techniques have been used, that there is no contamination in or from the ground. and it is not landfilled ground;

4.1.4 that the property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown;

4.1.5 that the property and its value are unaffected by any matters which would be revealed by a Local Search (or their equivalent in Scotland and Northern Ireland) and replies to the usual enquiries, or by a Statutory Notice and that neither the property, nor its condition, its use, or its intended use, is or will be unlawful:

4.1.6 that an inspection of those parts which have not been inspected, or a survey inspection, would not reveal material defects or cause the Valuer to alter the valuation materially;

4.1.7 that the property is connected to and there is the right to use the reported main services on normal terms;

4.1.8 that sewers, main services and the roads giving access to the property have been adopted. and that any lease provides rights of access and egress over all communal estate roadways, pathways, corridors, stairways and to use communal grounds. parking areas and other facilities;

4.1.9 that in the case of a new property, the construction of which has not been completed, the construction will be satisfactorily completed:

4.1.10 that in the case of a newly constructed property, the builder is a registered member of the NHBC, the Zurich Municipal Mutual, or equivalent and will construct the property to obtain its cover; and

4.1.11 that where the proposed security is part of a building comprising flats or maisonettes, unless instructed or otherwise aware to the contrary:

(a) the costs of repairs and maintenance to the buildings and grounds are shared

equitably between those flats and maisonettes;

(b) there are suitable, enforceable covenants between all leaseholds, or through the landlord and upon the freeholder/any feuholder;

(c) there are no onerous liabilities outstanding: and

(d) there are no substantial defects or other matters requiring expenditure (in excess of the current amount or assumed amount of service charge payable on an annual basis) expected to result in charges to the leaseholder of the subject property during the next five years equivalent to 10% or more of the Open Market Value being reported; and

4.1.12 that, where the dwelling is leasehold and because the Valuer has no further and better knowledge or information:

(a) the unexpired term of the lease is 70 years, and no action is being taken by any eligible party with a view to acquiring the freehold or to extending the lease term;

(b) there are no covenants exceptionally onerous upon the leaseholder;

(c) the lease cannot be determined except on the grounds of a serious breach of covenant in the existing lease agreement:

(d) if there are separate freeholders, head and/or other sub-head leaseholders. the terms and conditions of all the leases are in the same form and contain the same terms and conditions;

(e) the lease terms are mutually enforceable against all parties concerned;

(f) there are no breaches of covenant or disputes between the various interests concerned:

(g) the leases of all the properties in the building/development are materially the same;

(h) the ground rent stated or assumed is not subject to review and is payable throughout the unexpired lease term:

(i) in the case of blocks of flats or maisonettes of over six dwellings, the freeholder manages the property directly or it is managed by a professional, properly bonded managing agent;

(j) where the subject property forms part of a mixed residential or commercially used block or development, there will be no significant changes in the existing use pattern therein;

(k) where the property forms part of a development containing separate blocks of dwellings, the lease terms of the subject property apply only to the subject block, and there will be no requirement to contribute towards costs relating to other parts of the development, other than in respect of common roads, paths, communal grounds and services;

(l) where the property forms part of a larger development the ownership of which has since been divided, all necessary rights and reservations have been reserved;

(m) there are no unusual restrictions on assignment or subletting of the subject property for residential purposes;

(n) there are no outstanding claims or litigation concerning the lease of the subject property or any others within the same development;

(o) where the subject property benefits from additional facilities within the development, the lease makes adequate provision for the lessee to continue to enjoy them without

exceptional restriction, and for the facilities to be maintained adequately, and that there are no charges over and above the service charge for such use and maintenance; and

(p) in respect of insurance:

(i) the property will be insured under all risks cover, which includes subsidence, landslip and heave, for the current reinstatement cost;

(ii) the cover assumed is available on normal terms;

(iii) there are no outstanding claims or disputes;

(iv) where individuals in a block make separate [ ? ];

(v) the landlord obliged to insure is required to rebuild the property with such alterations as may be necessary to comply with then current building regulations and planning requirements.

**4.2** Among the relevant factors to be taken into account in the valuation are:

**4.2.1** the tenure of the interest to be offered as security and, if known, the terms of any tenancies to which that interest is subject;

**4.2.2** the age, type, accommodation, siting, amenities, fixtures and features of the property and other significant environmental factors within the locality; and

**4.2.3** the apparent general state of and liability for repair, the construction and apparent major defects, liability to subsidence, flooding, and/or other risks. Particular care is needed with non-traditional construction.

**4.3** Unless otherwise instructed, any value for development which has or requires planning permission is to be excluded from the 'open market valuation' and the Valuer will not include any

element of value attributable to furnishings, removable fittings and sales incentives of any description when arriving at an opinion of the value. Portable and temporary structures are to be excluded also.

**4.4** The definition of 'Open Market Value' is the Valuer's opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration at the date of the valuation assuming:

**4.4.1** a willing seller;

**4.4.2** that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

**4.4.3** that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts. the same as on the date of valuation;

**4.4.4** that no account is taken of any additional bid by a prospective purchaser with a special interest; and

**4.4.5** that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

**5. Estimate for Insurance Purposes**

In assessing the current reinstatement cost (see paragraph 1.1.3 above) the Valuer should have regard where relevant to the ABI/BCIS House Rebuilding Cost Index.

**6. The Valuer's Record of Inspection and Valuation**

**6.1** The Valuer is advised to make and retain legible notes as to his/her findings and, particularly, the limits of the inspection and the circumstances in which it was carried out.

**6.2** The Valuer is advised to keep a record of the comparable transactions and/or valuations to which he/she has had regard in arriving at his/her valuation.

**7. The Variation of Instructions**

All mortgage valuations should be in accordance with these Guidance Notes unless variations are notified to the Valuer in writing.

# Model Conditions of Engagement between the Lender and the Valuer

1. The Valuer will carry out for the Lender's current fee an inspection of the proposed security, and report, in accordance with the current RICS/ISVA Guidance Notes for Valuers, on the valuation and inspection of residential property for mortgage purposes on behalf of building societies, banks and other lenders, subject to any variations specified by the Lender in the issue of instructions.
2. The purpose of the report and valuation for mortgage is to enable the Lending Institution to assess the security offered by the property for the proposed loan and, where applicable, to enable the Directors to fulfill the requirements of Section 13 of the Building Societies Act 1986.
3. The report and valuation will be presented on the Lender's prescribed form or other type of form as may be agreed.
4. Before the Valuer proceeds, the Lender will take all reasonable steps to inform the Borrower as to the limitations of the inspection report and valuation, and will suggest that the Borrower commissions a more detailed inspection and Report before entering into a legal commitment.
5. Unless the parties otherwise agree in writing, all disputes arising out of this agreement shall be finally settled under English Law and the parties irrevocably submit to the jurisdiction of the English Courts, save that where the subject property is in Scotland, Scots Law shall apply and the Scottish Courts shall have jurisdiction.