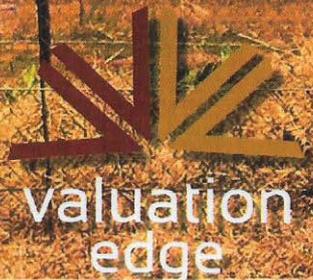# VALUATIONS FOR SECURED LENDING AND LENDERS' PERSPECTIVES IN BOTSWANA

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VALUATIONS FOR SECURED LENDING AND LENDERS' PERSPECTIVES IN BOTSWANA
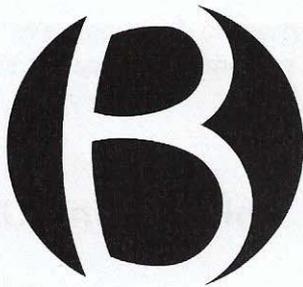
Full Report

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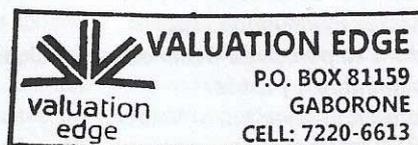**Boidus Data** *in partnership with* **Valuation Edge**

About the Author

Donald Kagiso Mengwe is a member of Real Estate Institute of Botswana (REIB) and registered Valuer, Property Manager and Estate Agent with regulatory body, Real Estate Advisory Council (REAC). He was Registrar of Real Estate Advisory Council (2005 - May 2006) and Secretary General of Real Estate Institute Botswana (2008 - May 2011). Donald's experience includes providing valuations for acquisitions, disposal, compensation and local taxation to government institutions. He was instrumental in the creation of the Valuation Standards Committee within REIB, whilst serving as Secretary General.

Acknowledgements

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VALUATIONS FOR SECURED LENDING AND LENDERS' PERSPECTIVES IN BOTSWANA

"Blind faith in the wisdom of the Valuer will leave --- banking system vulnerable to collapse if property investment bubbles over into speculation."

_ John Plender

" We plead with property valuers to avoid over pricing houses because it defeats the purpose of the society of housing Batswana."

_ Pius Molefe, Botswana Building Society MD

1.0 Introduction

The financial system is the bedrock of an economy. A well functioning financial services industry facilitates transformation of savings (depositors funds) into productive investments, and is therefore indispensable for sustainable social and economic development. Conversely, a badly managed financial system is detrimental to economic stability and in most cases requires tax payers money to correct. This obviously makes the case for supervision and regulation of banking activities to reduce the level of risk to which bank creditors are exposed and to mitigate systemic financial risk. Kalestsky (2010) articulates it well in his statement;

"the idea that a purely private financial system can exist without government backing of some kind is a market fundamentalist illusion. Far from representing a tough response to the banking crisis, attempts to reduce government support for financial system will merely allow banks to enjoy implicit guarantees without having to pay for them'.

A large share of bank loans are secured against real estate. In view of the fact that real estate serves as collateral for loans to firms and households, the banking system requires viable and sustainable real estate markets. Bank regulation through Basel Committee on banking supervision recognises valuation as an important instrument in credit risk management. Basel II Accord initiated two methods for calculating credit risk exposure or minimum capital requirement viz standardised and Internal Ratings Based (IRB) approach, which all require valuations. Basel III, which was developed against the backdrop of the 2008 financial crisis, intends to improve regulation through stringent demands relating to equity capital (regulatory capital).

It goes without saying that efficient and effective supervision of banking requires independent and objective valuation which must be commissioned in a transparent way. Public interest in the valuation process is warranted because of the critical role it plays in ensuring banking stability. In the United Kingdom (UK) and United States (US) increasing concerns in respect of valuations as a result of banking crisis led to a proliferation of research on the valuation process in order to improve standards. The research

that has been undertaken so far covers: external influences on valuers, methodologies to arrive at valuations, valuation variation and margin of error and the use of information within the valuation process (Baum et (2000)).

In Botswana property valuations are carried out by members of the professional body Real Estate Institute of Botswana (REIB) who are registered with regulatory body Real Estate Advisory Council (REAC). The aforementioned bodies are responsible for the professional conduct of valuers. A debilitating fact is that these bodies currently do not have the capacity to develop and maintain a framework for delivery of credible valuations. Only recently a graduate course in Real Estate was introduced by the University of Botswana. Therefore, there is less research on the real estate sector from a local context. The mainstream media also has lately been awash with articles or reports raising concerns about soaring property prices which are attributed to unprofessional conduct of valuers and speculation. It is suggested by such reports that the alarming increase in prices, if it continues unabated, could risk social unrest because they deepen income inequality.

Little is known about the valuation process and is mostly based on anecdotes. This study aims to examine the valuation process for secured lending from lenders perspectives in Botswana. Considering the crucial role valuation play in the lending process and credit risk management, the study seeks to specifically elicit lenders' views and experiences on valuation reporting and instructions procedure, identify different types of valuations required by lenders and areas which may be a threat to independence.

Section 2 provides an elucidation on the role of valuations in the lending process, bases of valuation for secured lending and valuation standards. Section 3 is a review of literature on empirical studies that sought to improve valuation process. Section 4 states the research objective and describes the methodology to elicit the views and experiences of lenders whilst section 5 reports the Results. Section 6 is a discussion of results. Conclusions and Recommendations are set out in Section 7 and 8 respectively.

2.0 Purpose of property valuations in the loan advance process

Bank loans are a valuable source of working capital for firms or the lifeblood of an economy and within the banking sector it is prevalent to secure such loans against real estate. In his book Capitalism 4.0 'The Birth of a New Economy', A. Kaletsky helps to underscore inherent unpredictability in the financial sector through the following observation;

"the primary purpose of any financial system is to link decisions made today with many years or even decades ahead. Savers, investors and business must resolve here and now how much to save and spend, whether to build new factories and which technologies to back, but all these decisions depend on views about the future and those views, in most cases can only be based on gut instincts, hopes and fears" pg 122

The essence of the statement is to categorically highlight complexity and uncertainty in finance. Under this haze of uncertainty it is a foregone conclusion and rational that risk management strategies are necessary to mitigate financial loss and ensure financial stability. A considerable and substantial part of risk management in bank lending relates to property valuations (measurement of collateral). Valuations inform individual lending decisions and are used to track progress of the loans and at macro level, they are an integral part of capital adequacy system which attempts to manage risk by lenders (Crosby et al; 2004; pg2). Furthermore, because valuations support a colossal amount of financial activity it is in the public interest that they are independent, objective and reliable to assist in minimising risk to the financial system.

2.1 Real Estate & Financial crises

Real estate markets are important for the development of modern financial sector or viable economy to create national wealth. Adlington et al (2000) at pg 3 assert that 'relationship between the strength of real estate market and health of country's financial sector can be most dramatically illustrated by looking at the behaviour in real estate markets in times of banking and economic crisis'~ Among a series of financial crises they quote as having been affected by real estate market conditions are: UK banking crisis of 1974, Baltic banking crisis of 1995-1996, 1997 Asian financial crisis, 2008 financial crisis. In all the crises, real estate served as collateral for loans to households and firms and the banking systems were highly exposed to real estate market. The inevitable was financial ruin in the form of bank insolvencies and a threat of systemic collapse of the financial sector, in the midst of severe depression in property values. This is because a slump in property prices leads to negative equity which is associated with loan defaults.

The recent 2008 financial crisis (major economies are still reeling from its effects) laid bare the symbiotic relationship between real estate and financial system. Although there are various accounts on the causes of the crisis with little convergence to consensus, what is not in doubt is its linkage to sub-prime mortgages and associated financial instruments such as mortgage backed securities (MBS). Most insights or perspectives ascribe the inception of the crisis on the bursting of the housing bubble in USA. Among the main contributory factors that caused the financial crisis espoused, is excess liquidity fueled by moral hazards that arise from principal–agent problem (e.g mortgage brokers' propensity to make risky lending due to the fact that they have no stake in the outcome of the loans advanced), and implicit government guarantees to financial system resting on 'too big to fail doctrine' (See Taylor; 2008 and Atsem; 2010). Financial deregulation by Thatcher – Reagan nexus that endorsed market fundamentalist policies (this led to the advent of asset securitisation, a wall street innovation, that became a large source of financing), political interference by Clinton Administration which advocated for home –ownership among minorities and low income earners are also peddled as among the causes of the crisis. (see Taylor; 2008 & Taye; 2009). Monetary excess led speculators to inflate house prices or the housing bubble to emerge and pop causing mayhem manifesting in bank runs and collapse of high profile institutions such as Lehman Brothers.

2.2 Bank Regulations and Valuations

Basel Committee on Banking Supervision of Bank for International Settlements' (BIS) main role is in setting capital adequacy requirements. Following the 2008 financial crisis it has developed interventions enshrined in new Basel accord, Basel 3 that seeks to improve regulation and ensures that financial system remains resilient to economic shocks. Basel 3 effectively requires banks to hold higher capital and liquidity buffers (i.e. banks use more of their money relative to depositors funds than practised previously).

The linkage between the financial turmoil and property crash undoubtedly and inevitably calls for action that requires a serious re-examination of the potential influence or role property can play in managing risk. Closer scrutiny of guidance to regulators in managing risk associated with pro-cyclicality stated in Basel 3 by Crosby and Hughes;2011 at page 7 reveals that measures proposed are less emphatic on property and do not accord it a pivotal role. Their observation in verbatim;

"However, post crisis BIS is strengthening regulation through

Basel 3 largely to try and reduce the systemic risks associated with pro-cyclicality. As part of this strengthening, a counter-cyclical buffer is to be introduced which will require national authorities to monitor key indicators of system-wide risk, particularly credit/GDP guide and mean that banks must hold additional capital where there is a build-up of such risk. However, while authorities are encouraged to consider other indicators, there is little support here for countercyclical measures that relate to property...." Crosby & Hughers,2011,pg 7)

Crosby & Hughes (2011) further reveal that the aforementioned virtues are being propagated notwithstanding the body of literature post and pre crisis which 'supports varying capital requirements on the basis of changing asset prices as well as credit growth'. In terms of property among the counter-cyclical measures advanced hinge on Loan to Value and Loan to Income ratio (e.g to mitigate credit risk, LTV and LTI may be adjusted over the property cycle such that they are reduced when property prices are rising strongly and vice versa).

It is important to note that prior to the 2008 financial crisis Basel II was operative and it recognises collateral as a credit risk management tool. It provides for two alternative approaches for calculating minimum capital requirements for loans viz standardised and internal-ratings based (IRB) approach. The standardised and internal-ratings based methods reveal different ways for dealing with risk weighting of real estate loans which require valuations. Under the standardised approach risk weightings are stipulated as follows; Mortgages on Commercial Real Estate: 100%; Mortgages on residential property: 35%; Non performing residential loans (past due for more than 90 days): 100%; Past due Residential Mortgage (with specific for more than 20% of their outstanding loans): 50% - (Basel Committee on Banking Supervision (2006 as reported by Panagopoulos, Y and Vlamis, P. (2008))). However, in terms of commercial loans there are exceptions as Basel framework recognises that circumstances for well developed markets may suggest that such loans attract preferential risk weighting of 50% for parts of the loan below 50% ratio of Loan to Market Value (MV) or 60% Mortgage Lending Value (MLV) and this exceptional treatment is subject to strict conditions (Panagopoulos and Vlamis; 2008). In the standardised approach, property valuations are necessary if the bank assigns preferential weighting for residential and commercial properties. As regards commercial properties, MV and MLV must be determined if preferential risk weight of 50% is assigned. IRB permits banks to develop their own empirical models for risk assessment subject to approval from their local regulator. Basel II insists on more sophisticated techniques in credit risk management. Banks can make their own estimation of risk parameters: probability of default, loss given default (LGD), exposure at default (EAD) and effective maturity. Property valuation in the IRB approach is based on MV. The value of collateral in the event of realisation is critical

in determining LGD, a parameter for the calculation of risk, which is required under Basel II in the IRB approach.

Basel II framework requires the frequent monitoring of the value of collateral. Increased frequency of tracking collateral value is suggested when market conditions exhibit volatility or significant fluctuations.

2.3 Bases of Valuation in Secured Lending

International Valuation Standard relating to measurement of collateral is IVS 310 and provides that the basis of valuation would normally be Market Value (MV). IVS 310 also stipulates that some lenders request valuations on the assumption of forced sale and impose a time-limit for the hypothetical disposal of property. Royal Institution of Chartered Surveyor (RICS), an international professional body of Valuers, has adopted International Valuation Standards and where appropriate supplemented them (RICS Valuations Standards - Global and UK, 7th Edition, May 2011, pg 1). RICS Valuation Standards - Global and UK (Red Book) explicitly states that MV is the appropriate basis of value in respect of valuation for secured lending, and that any special assumptions made in arriving at MV must be agreed in writing with Lender in advance and referred to in Report. UK Valuation Standards 3.3 stipulates that valuations of residential property on the basis of projected market value shall be in accordance with definition settled by RICS, Council of Mortgage Lenders and the Building Societies Association (Red Book,Pg 160). The Red Book also carries a note by European Mortgage Federation on Mortgage Lending Value (MLV) with an express caveat that it is neither mandatory nor approved guidance.

MV is essentially a prediction of most probable or likely selling prices of subject property at a specified time, if exposed to the imperfect real estate market. It has no 'shelf life' and the certainty of prediction is based on availability of comparables or open market transactional evidence on which the prediction is based and on the skill and competence of Valuers. There is commentary that discredits the notion that MV is an appropriate basis for secured lending. Clayton(1998) posits that, based on empirical evidence, residential property prices do not reflect underlying market fundamentals because they are driven in part by irrational expectations or psychology. On the basis of the aforegoing he boldly states that homes are likely to be over-priced in a booming market and therefore lenders should err on the side of caution when considering valuations based on MV. Critics of MV also contend that in a rising market, the relationship between MV and loan amount leads to increases in lending and results in pro-cyclical behaviour (See Quention (2009) and Crosby & Hughes (2011)).

The definition of Projected Market Value is based on MV, save

for the stipulation that the Valuer's estimate should reflect what the amount is forecast to at a future, specified date. The purpose of this basis of valuation is to illustrate the Valuer's opinion of whether the market is likely to fall, rise or remain static in the period that it is anticipated will be necessary to complete the sale (Red Book, pg 161).

MLV is suggested as an alternative by certain quarters because it provides a long-term sustainable value limit, over the duration of the loan, thus informing the risk management process. European Mortgage Federation asserts that it effectively facilitates whether property offers sufficient collateral to secure a loan over a long period. The concept excludes the speculative element or promotes a figure below MV that is able to absorb short-term market fluctuations (i.e smoothens market cycles) whilst accurately reflecting the underlying long term trend in the market (Red Book, 7th Edition, pg79; Quentin, 2009, pg3). It also has its critics and Crosby et al (2000) argue that it has 'no economic basis' (i.e it is not value in exchange or value in use) and incapable of objective analysis due to a variety of different interpretations which can be applied to each element of the definition. Some Valuers contend that it subjective and describes its calculation as akin to gazing into crystal balls (Quentin; 2009; pg3)

Another definition which is suggested by Crosby and Hughes (2011) is Investment Value, a 'value in use' concept which has been defined by IVS as value of asset to the owner or prospective owners for individual or operational objectives. It is presented as having the characteristics of MV, in that it is a snap shot value at the valuation date. This proposition has however been criticised by Lind (2005) (as reported by Crosby & Hughes, 2011) who states that it is subjective and suggested 'Reference Value' which aims at smoothing valuations through cycles with reference to historical data. Reference Value has however not found favour within the IVS.

2.4 Valuation standards

Banking crises have led to greater demands for financial stability through improved prudential supervision. As stated earlier, valuations play a crucial role in tracking loans and they are an input in the calculation of capital adequacy requirements. In this respect they are an essential component of risk management strategies and concerns about banking systems stability have led to the development of valuation standards to serve as a framework for best practice. Public interest in the valuation process has been triggered by financial crises which have exposed unethical or dishonest conduct, wide variations in approaches and unrealistic estimates in the valuation process (Gilbertson and Preston (2005). Crosby, Lavers and Forster (1998) observe that as a result of the 1970s banking crisis and 'increasing concerns regarding valuations (Greenwell & Co; 1976), the Valuers' professional institutions in the UK, particularly the RICS, initiated research in valuation methods culminating in two research reports (Trott, 1980; Trott; 1986) and developed guidance notes (Red Book) on practice and procedures in Valuation process. The Mallison Report is an investigation of broad issues relating to valuation practice from clients' perspective and was a precursor to a version of Red Book that amalgamated White and Red Books. In the USA, federal government regulation on the appraisal profession through the Financial Institutions Reform, Recovery and Enforcement Act,1989 was influential in the development of Uniform Standards of Professional Appraisal practice by the Appraisal Institute in 1999 (Newell, 2004, pg1). On a global front, IVS are being promoted to ,inter alia, facilitate harmonisation of global banking regulation. Basel Accord requires robust valuations standards. IVS are being advocated by International Valuations Standards Council (IVSC) with the objective of harmonising standards within the field of valuation at global level and it works with international organisations such World Bank and International Monetary Fund (IMF) (IVSC; 2007)

Overall, there is critical need for valuations standards to minimise risk to the banking system and prevent economic crisis. Valuations have to be independent, objective and accurate and Valuations standards set a framework for delivery of credible valuations by properly trained professionals who respect ethical dimensions.

3.0 Empirical studies on valuation practice

In parallel with continuous efforts to develop standards to improve quality of valuations and probability of accuracy to ensure public confidence in the valuation process, research is being conducted relating to matters of valuation practice. It encompasses valuation variation, accuracy, valuation techniques, valuer behaviour, clients view regarding quality of valuation reporting and external influences on Valuers (See for example Baum et al (2000), Crosby et al (2004), Crosby, Lavers & Murdoch (1998), Newell (1999), Colwell and Trefzeger (1992), Diaz (1990), Gallimore (1996), Havard (2001)), Levy & Schuck (1998)). The findings of these research exercises have had the effect of informing the enhancement of standards to ensure best practice.

A considerable number of studies on the valuation process for secured lending has revealed evidence of valuers being subjected to inappropriate pressure from borrowers, lenders & brokers who sought to influence the valuation outcome in their favour. In the US, Kinnard et al (1997) found evidence of pressure being exerted upon appraisers to support a sale price rather than determining an unbiased opinion of Market Value. Levy and Shuck (1998) found that in New Zealand sophisticated clients were able to influence Valuers to change valuations through their expertise or information power whereas unsophisticated clients manipulated Valuers by using material benefits i.e adopted reward or coercive power. Shi-Ming Yu (2002) carried out a research undertaking in Singapore that exposed private individuals gross influence on the residential valuation process for mortgage purposes. Baum et al (2000) found evidence of clients' influence in the Valuation process in the UK and this led RICS to set up a working party under Sir Brian Carsberg to make recommendations that would address matters relating to conflicts of interest and draft valuation meetings which have been included in the Red Book (Carsberg; 2002, pg 4). Crosby, Hughes & Murdoch (2004) conducted research on the valuation process for secured lending in the UK and identified that the 'strongest evidence of overt influence on the process comes from the method of valuer selection'.

Research on behavioural aspects of valuation practice is also of significance to the secured lending practice and it has concentrated on residential valuations on account of the requisite data available. This area takes the perspective that valuation is essentially a product of human judgement and complements understanding of inaccuracy in valuations. It links the psychology of human predictive judgements to decision making in valuation. Essentially, it questions the validity of rational assumptions that underlie models of valuation behaviour by acknowledging that valuations are produced by human beings, and hence are inclined to act in way that differ from public expectations. In complex situations humans adopt cognitive short cuts to ease the burden of information processing and this type of behaviour identified as the valuation process is

"anchoring and adjustment heuristics." These works have unveiled that disclosure of the purchase price leads the valuer to confirm the reasonableness of the price through biased selection of comparables rather than undertake an objective assessment of Market value - This behaviour is not necessarily out of clients' influence and can be self induced (See Diaz (1990); Gallimore (1995, 1996, 1997), Gallimore and Wolverton (2000). This behavior is akin to what Gallimore (1995) in his empirical work defines as confirmation bias that is 'an inclination to seek reinforcement of prior opinion of value' and 'disregard or absence of search for evidence that may upset those opinions'. The following excerpt by Gallimore (1997) gives an account of the aforementioned deviation from prescriptive or normative model of behavior;

'in particular, people have limited capacity to process information. Therefore when confronted with the need to make judgements about such information, they (unconsciously) adopt simplifying strategies. Phenomena associated with these strategies may result in distortion of their conclusion'. pg 19

Crosby et al (2004) opine that a juxtaposition of these findings and research on valuation accuracy and variation is compelling to suggest that there is 'natural tendency' for Valuer to simply confirm whether the disclosed purchase price is within the margin of error or within distribution of possible outcomes.

The need to retain valuation instructions on financial grounds, especially in a depressed market may compromise objectivity and put pressure on Valuers to pander to the whims of clients (Mansfield; 1999; Hansz 2004).

Further, there are a series of studies that have been undertaken to examine clients' perception of the quality of valuation reports especially within the developed world (see Dotzour & Le Compte (1993), Crosby et al (1995), Newell (1999,2009)). In summary these studies have indicated criticisms raised and suggestions for improvement made by users of valuation to enhance valuation reporting. A common feature in the findings of the said studies and of greater emphasis is that although clients are content with the quality of valuation reports, they would appreciate if the reports would incorporate interpretative or analytical information such as state of economy, market trends and valuation methodology. This is preferred as well as the adequate descriptive information on property itself such as building measurements and location details that are being provided.

In Botswana there is no meaningful research on the valuation process and as a result little is known and whether there are areas within the process that may compromise objectivity and independence.

4.0 Research Objective and Methodology

The aforementioned discourse offers insights on the crucial role of the valuation process within the secured lending business. The exposition is that although valuations are not an antidote for financial crisis, they are necessary in mitigating risk to ensure stability of the banking system. Prudential supervision requires valuations to decide on risk weights to assign to specific real estate loans when determining minimum capital requirements. Valuations are also used to track loans and are relied upon to calculate subsequent loan advances.

It thus follows that effective and efficient supervision of banking activity requires independent, objective and accurate valuations. Professional valuation bodies, governments, academia and other stakeholders are thus inclined, in the public interest, to make collective concerted efforts to enhance quality of valuations for secured lending by developing valuation standards. Lending institutions have legitimate expectations that the valuation process result in a reliable outcome to minimise financial loss, provided there is absence of perverse incentives.

The aim of this research is to examine the valuation process for secured lending within the real estate sector in Botswana, particularly from a lenders' perspective. Omirin (2000) signifies that evaluating clients' views is instrumental for best practice through the observation that property valuation practice is continuously being influenced by a combination of forces within and external to the profession, which include inter alia, the changing needs of institutional investors and lenders. Therefore, this is a qualitative study and in detail sets out to explore lenders' perceptions on valuation instructions procedure and quality of reporting, to identify the nature of different types of valuations required by lenders and areas which may be a threat to independence and objectivity. This is achieved through self-administered structured questionnaire survey of commercial banks and state-owned financial institutions which require property valuations for their lending practices, in order to elicit their views and experiences. The questionnaires used are essentially those adopted by Crosby et al (2004) in a research that sought to clarify the valuation procurement process for secured lending in the UK, which entailed, inter alia, similar survey of property lenders. Crosby et al (2004 designed the subject questionnaires on the basis of identified themes discussed by the focus groups and transcripts of deliberations of the groups. They formed two focus groups, one constituted by commercial valuers and the other by lenders. The framework for discussion was developed through analysis of cases of Valuer negligence brought to the courts by borrowers and lender. Crosby et al (2004) justified derivation from the cases on the fact that they shed light on the most important areas of dispute and tend to report the valuation process in detail in the secured lending context, even where the process per se is not an issue. The questionnaire adopted was also complemented by the work of Newell (1999) on quality of valuation reports in Australia.

The questionnaires for Crosby et al (2004) were used based on the following two reasons: First, valuations are essentially used for the same purposes within Botswana banking system as in the UK in secured lending context. Secondly, the majority of registered practising Valuers in Botswana were trained in the UK and most of the remaining attended tertiary educational establishment in the Commonwealth. As a result, their academic and practice standards are rooted in and modeled on British educational and professional standards. This means that there are areas of convergence such as terminology, valuation approach, procedures and reporting. (not neccesary to have separate questions for commercial & residential lenders)

The survey was conducted in October 2012 and was sent to the head offices in Botswana of all commercial banks licensed by Bank of Botswana in accordance with Banking Act and all state-owned financial institutions. The total response was 9 no., a response rate of 69%. An examination of respondents' position within the organisation suggest that the responses came from senior level. All respondents commissioned external valuers to conduct valuations required for lending purposes. Data for this study was analysed using descriptive statistical techniques.

The questions and responses are as per Appendix One and Appendix Two sets out list of organisations that took part in the research.

5.0 Results

The results of the survey reported below have been divided into five sections viz, Form and Quality of Reports, Instructions and selection of Valuer, Bases of Valuation, Information Flow and Non-standard Valuations.

5.1 Form and Quality of Reports

Lenders were asked whether certain information is included in valuation reports. The results are shown in figure 1. The general trend is descriptive information relating to location, physical characteristics e.t.c invariably appear in valuation reports. However interpretative or analytical information that is not property specific such as commentary on state of economy and market is less likely to be provided. Further, information relating to comparables used, valuation methodology and calculation and statement on uncertainty of valuation figure is unlikely to be given.

In addition to the question on whether certain information is included in valuation reports, the survey investigated the satisfaction level of lenders in respect of the informa-tion provided. This required analysis of the 'yes' response to the first question whose results are shown in figure 1. Figure 2 illustrates the lenders' responses. Generally the trend is lenders are content with descriptive information such as location and physical characteristics. In terms of the respondents that indicated that interpretative information is given, such as market commentary, planning status, demand of property and volatility of local market, the general pattern is valuation reports do not contain sufficient analytical detail to facilitate informed decisions, hence low satisfaction level. Just under half of the lenders felt that general information on comparables is inadequate. Figure 2 does not show lenders' satisfaction level on uncertainty of valuation figure, commentary on state of the economy because all lenders have indicated that the information is not included in valuation reports. 33% of lenders said that they were not satisfied as regards information on valuation methodology adopted and calculations and 50% expressed that they were just satisfied regarding same. This indicates that very few lenders are too satisfied with information on valuation methodology adopted and calculations.
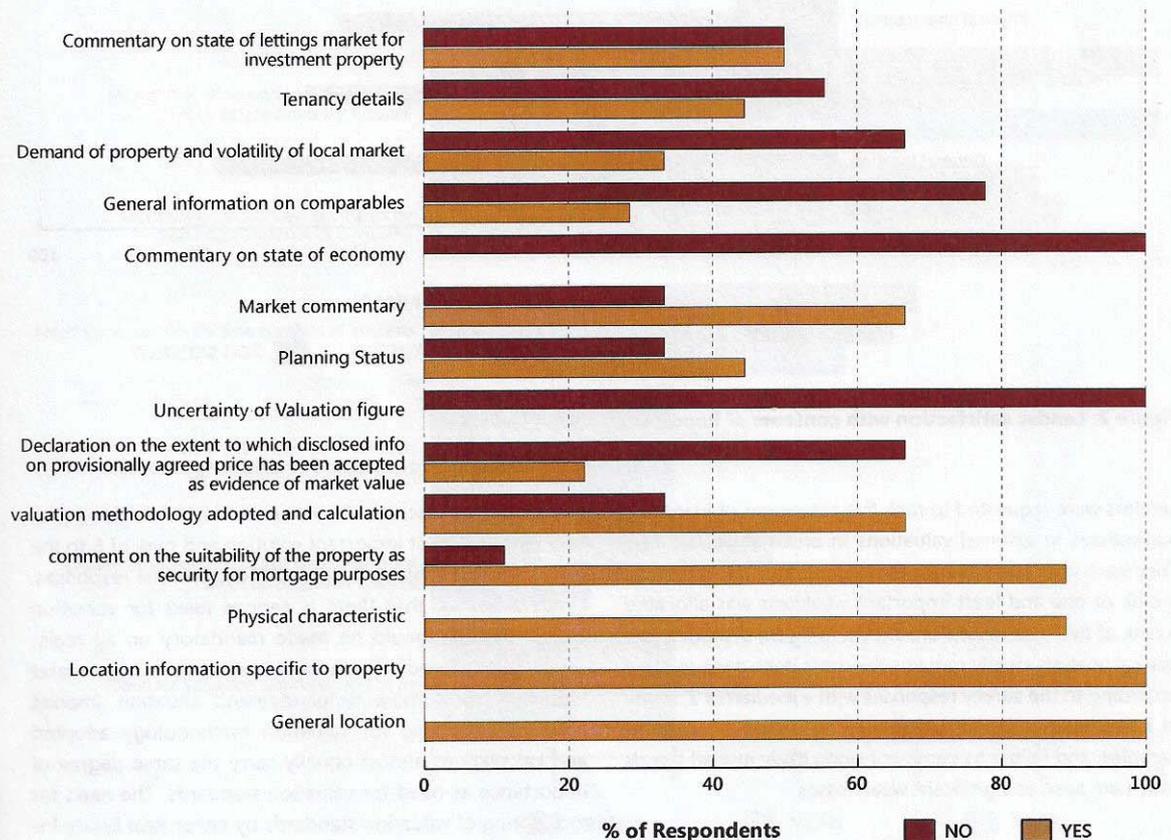

Figure 1: Information contents in Valuation Reports
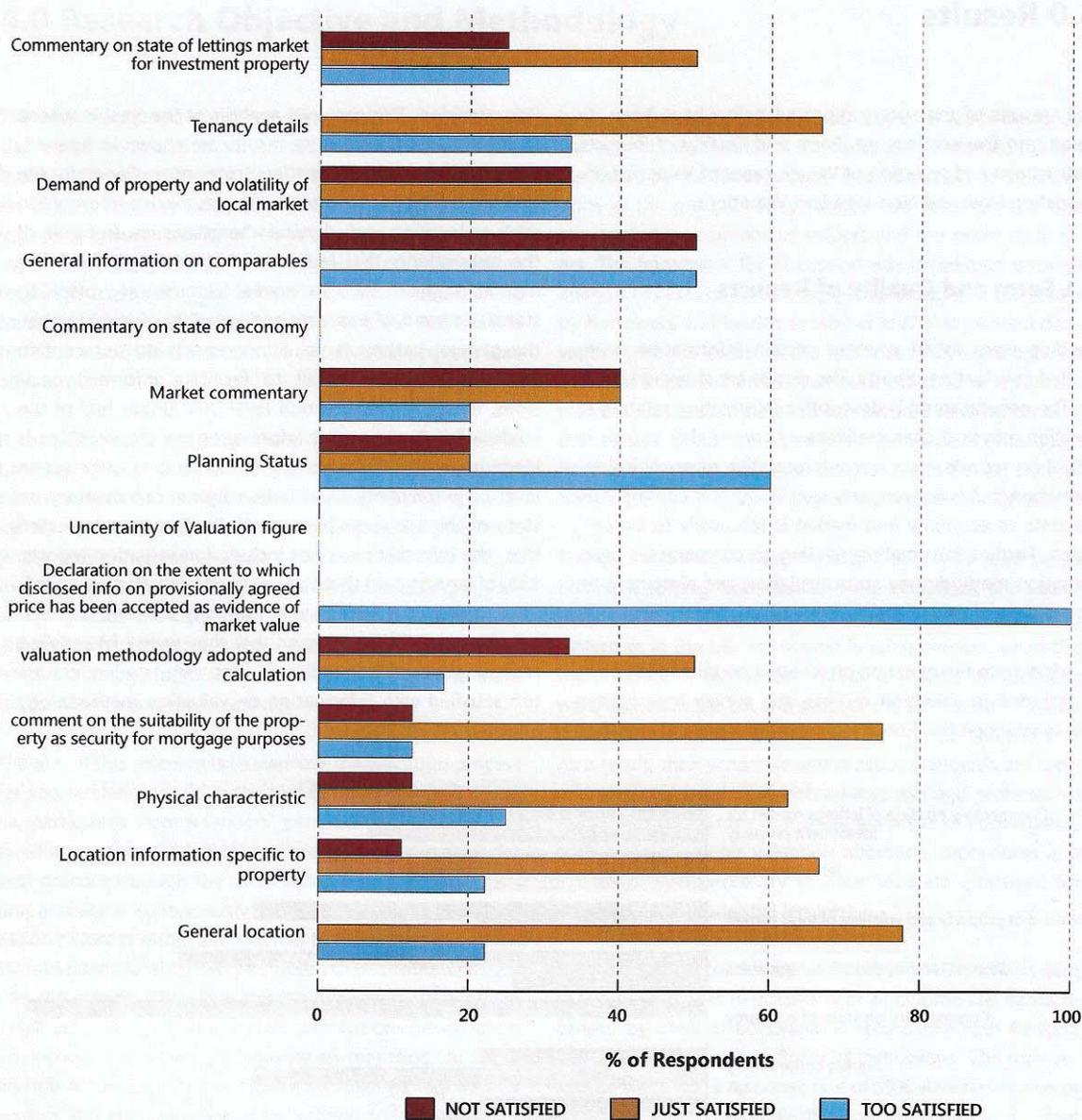
Figure 2: Lender satisfaction with contents of Reports

Lenders were requested to rank five categories of identified weaknesses in external valuations in order of importance. They were instructed to give the most important weakness a rank of one and least important weakness was allocated a rank of five. The results are shown in figure 3. Inadequate market analysis clearly remains the most important concern according to the survey responses with a median of 1, mode of 1 and mean of 2. This is followed by limited use of comparables, and failure to comment upon likely market trends which are seen as significant weaknesses.

Lenders were also requested to rank in order of importance seven categories of possible solution to the afore-mentioned weaknesses. They were instructed to give a rank of one to the most important solution and rank of 6 to the least important solution. Figure 4 illustrates the responses. Lenders believe that there is serious need for valuation standards that should be made mandatory on all registered Valuers (mode=2, median=2 and mean=2.6). Greater emphasis on current supply/demand situation (market analysis) and need for valuation methodology adopted and calculations almost equally carry the same degree of importance as need for valuation standards. The need for monitoring of valuation standards by either Real Estate Institute of Botswana(REIB) and Real Estate Advisory Council (REAC) was relatively rated low.

Rank: 1 to 5; numbers 1 to 5 used only once; rank of 1 allocated to most important weakness; rank of 2 to second most important weakness e.t.c

■ MEDIAN   ■ MEAN   ■ MODE
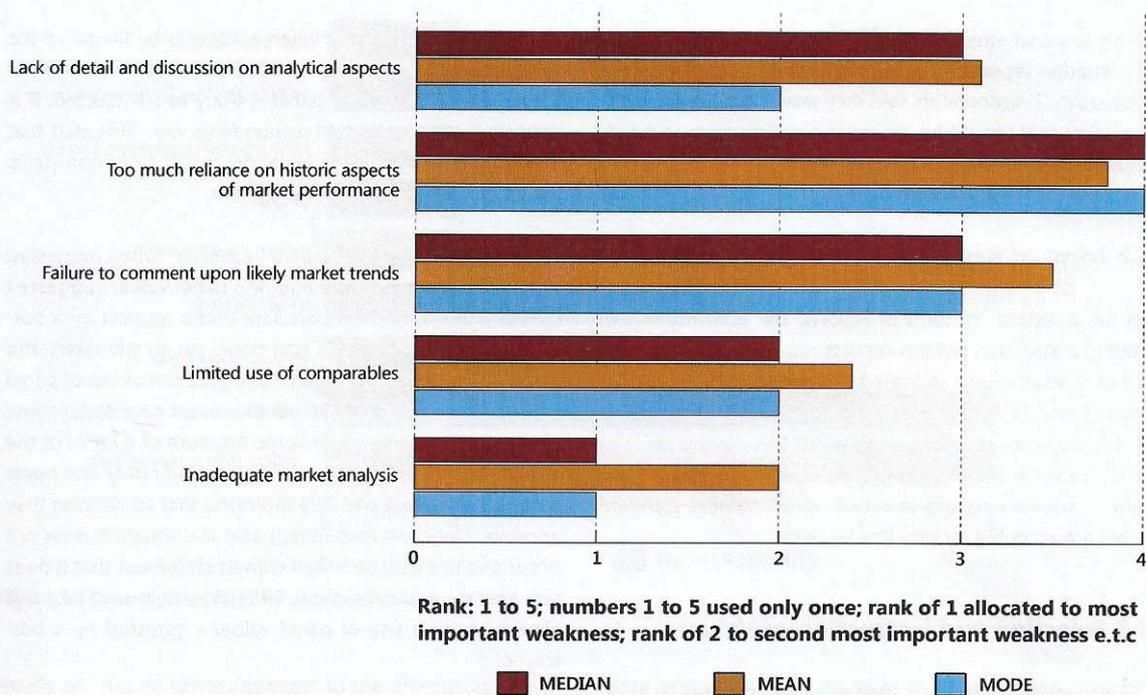
Figure 3: Perceived weaknesess in Valuation reports
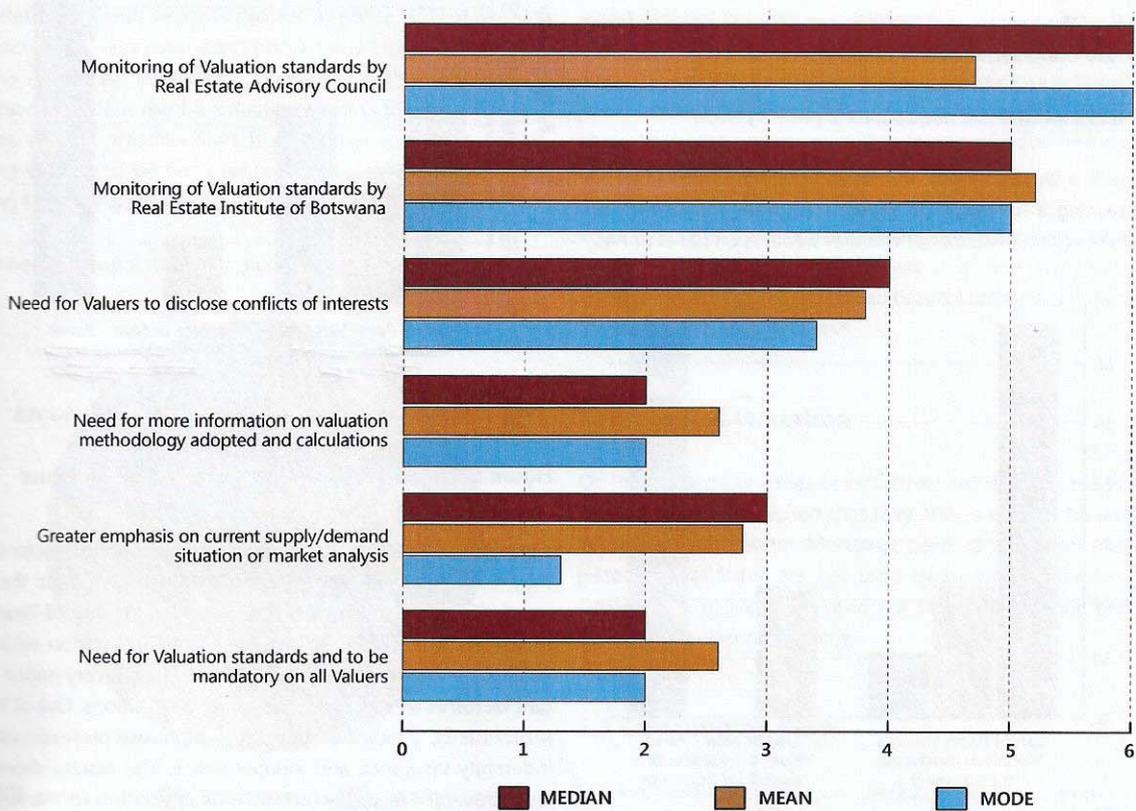

■ MEDIAN   ■ MEAN   ■ MODE

Figure 4: Suggested solutions to perceived weaknesses to valuation reports

When asked whether they would pay more for higher quality valuation reports 7 out of 9 respondents replied in the affirmative. 2 respondents said they would not pay for higher quality as it should be the norm and fees have to be affordable to borrowers.

5.2 Form of Reports

On the question of form of reports, the vast majority of lenders stated that written reports are always provided (8 out of 9 respondents indicated that written reports are always given). 77% of lenders prescribe that all valuation reports be on their standard forms whilst the remainder (23%) never insist on their forms. This means that lenders standard forms/formats are common whilst Valuers standard forms are accepted by very few lenders.

5.3 Selection and instruction of Valuer

The lenders were asked how often the valuer is chosen by a borrower and given a set of scenario which related to submission of completed full valuation reports and requests to appoint a particular valuer to indicate likely outcome. This was intended to examine the role of the borrower in the selection process.

55% of the lenders said the valuer is rarely or never chosen by the borrower and 22% said sometimes. Only 2 respondents expressed unfettered choice of valuer by the borrower and that they did not operate a panel system.

Figure 5 illustrates the responses of lenders in relation to accepting a full valuation report from borrower under the different circumstances of whether valuer is on panel or not.
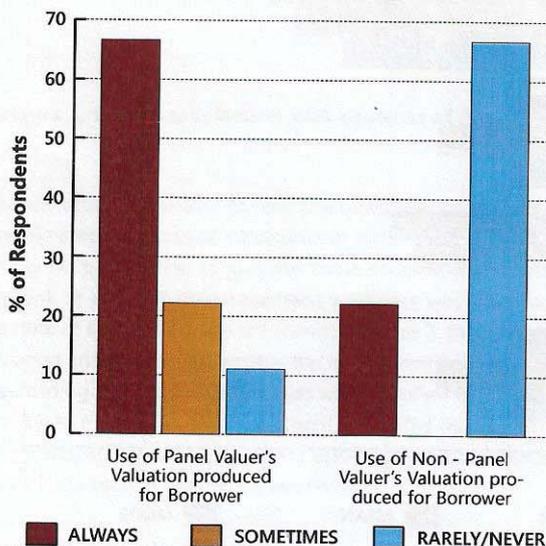
Figure 5: Use of existing valuations by lender

The results indicated that when a Valuer is on the panel the valuation would normally be used and that a valuation of Valuer who is not in the panel is likely to be rejected. It is important to note that all respondents who indicated that they would always use a valuation report from non-panel valuer do not operate a panel system.

Figure 6 illustrates the lenders' responses when requested to appoint a panel valuer and non panel valuer suggested by borrower. 67% of lenders said that a request by a borrower for appointment of non-panel valuer will rarely and never be approved. As regards the question of use of panel Valuer suggested by borrower the results reveal that some lenders still want to retain some measure of control of the selection process as 33% said they would rarely and never accept the request and 22% indicated that sometimes they approve. Only one respondent said the situation does not occur and this may be linked with its statement that it does not operate a panel system. 33% of lenders said they will always approve use of panel valuer suggested by a borrower.
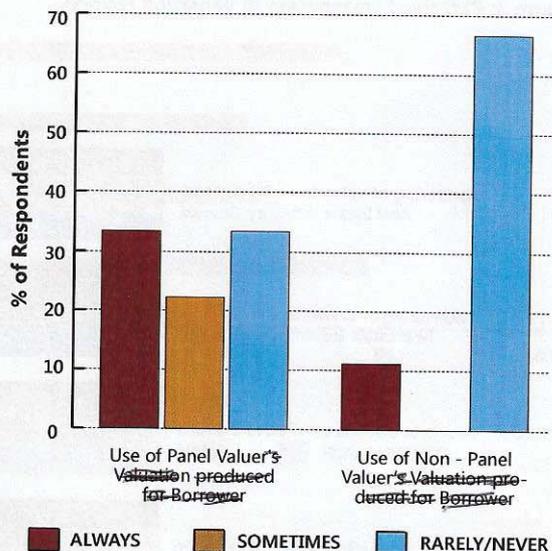
Figure 6: Borrower involvement in selection of Valuer

Lenders were asked to list three most important factors they consider when choosing an external valuer for the panel. Figure 7 illustrates the results. Membership of Real Estate Institute (REIB) of Botswana and registration with Real Estate Advisory Council (REAC) is clearly a very important factor, as well as experience and qualifications. Out of 9 respondents, 3 indicated that they emphasise professional indemnity insurance and independence. The results show less convergence on factors such as reputation in market and turn-around time.
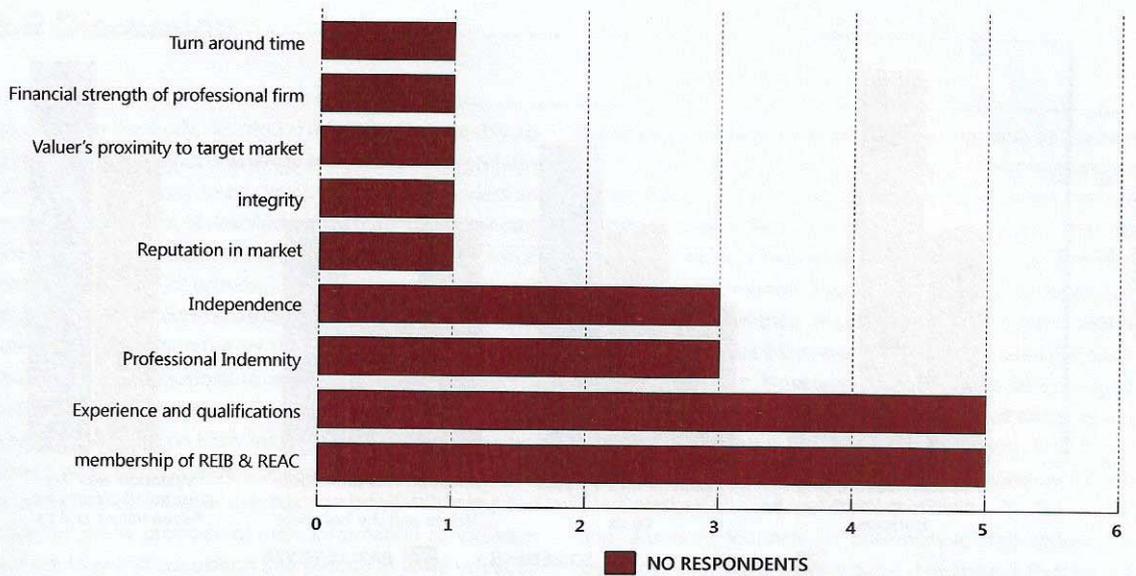
Figure 7: Selection criteria of external Valuer

Nearly all lenders (89%) answered in the affirmative when asked whether they consider membership of REIB and registration by REAC as very important factors in choosing an external valuer for the panel.

In respect of the question which sought to investigate the relationship with valuer to provide a service, 45% of lenders said they always issue direct instructions. Figure 8 illustrates the results. An interesting observation is that over half of the respondent receive valuation reports through borrowers. In this situation there is no written contract between the valuer and lender in respect of the instruction emanating from the borrower.

Where an appointment is made by a lender it is always in

writing and an overwhelming majority of lenders control the content of instructions (78%) and never use Valuers' instructions (80%). The 2 respondents who indicated that they never use their own instructions may be linked to the fact that they do not have a panel system. 55% of lenders indicated that instructions are not subject of negotiations whilst 33% did not give a response.

Figure 9 illustrates the responses of lenders when questioned on the payment and negotiation of valuation fees. The results show that borrowers are more likely to pay valuation fees and 22% of lenders always pay directly to the valuer.

Over 50% of lenders never and rarely negotiate valuation fees with valuers and 33% said valuation fees are always negotiated directly between valuers and borrowers. Lenders are unlikely to negotiate fees.

5.4 Bases of Valuation

On the question of bases of valuation used, the vast majority of respondents replied that they always request Market Value as basis of value. Mortgage Lending Value and Projected market Value are not used by majority of lenders. Other bases of valuation used are Forced Sale Value and Insurance Replacement Value.

5.5 Information Flow

Lenders were questioned on disclosure of information relating to terms of loan, identity of borrower and purchase price to the valuer. It was also put to the lenders whether

Figure 8: Direct instructions by Lender
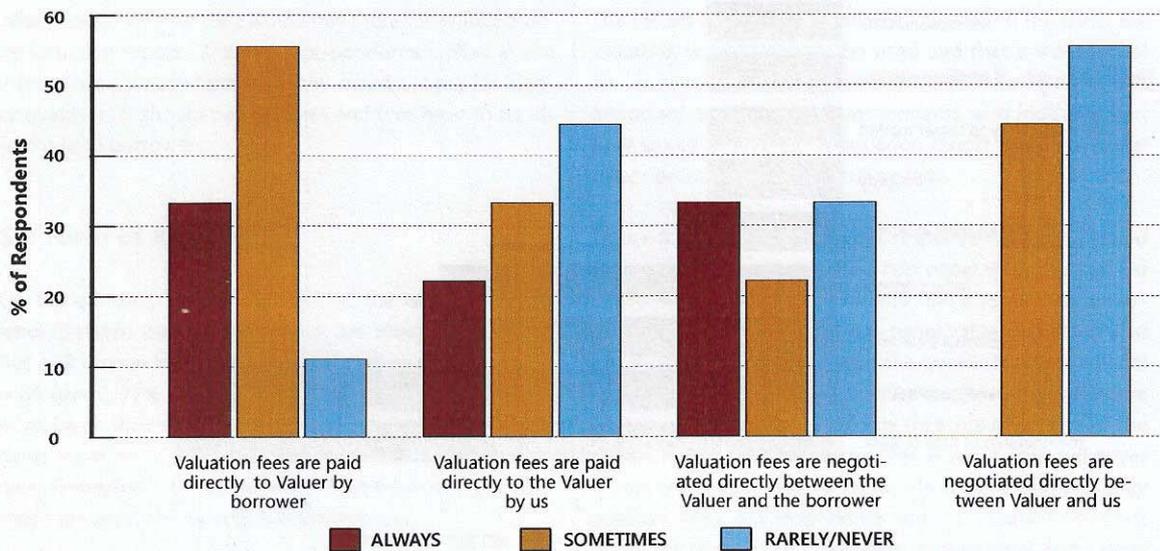
Figure 9: Payment and negotiation of Valuation fees

they hold draft valuation meetings with the valuer.

Almost all lenders never reveal information on purchase price and terms of loans. 3 out of 9 respondents said that they always reveal the identity of the borrower whilst 5 out of 9 indicated that they rarely and never reveal such information.

Nearly all lenders indicated that they never hold draft valuation meetings with the Valuer.

5.6 Non standard Valuations

Lenders were asked how often they commission valuations as a check on another firm's valuation. The survey data indicate that such valuations are infrequent. Figure 10 illustrates the responses. Generally lenders responded that they are compelled to seek a second opinion when in doubt in respect of the initial valuation. Further they stated that when in the process of procuring a second opinion fresh instructions are given without disclosure of the valuation which is being questioned. One lender indicated that sometimes it calls for a market survey from an independent valuer to check the reasonableness of the contested valuation. The majority of respondents said the valuer commissioned to provide a second opinion would always give a report in writing and they discharge the fees.

Lenders were asked questions relating to the use of non-standard valuations;
   a. as part of the process of selecting valuer
   b. from the appointed valuer as an early indication of value before the valuer gives a full valuation
   c. as the main valuation for a loan.
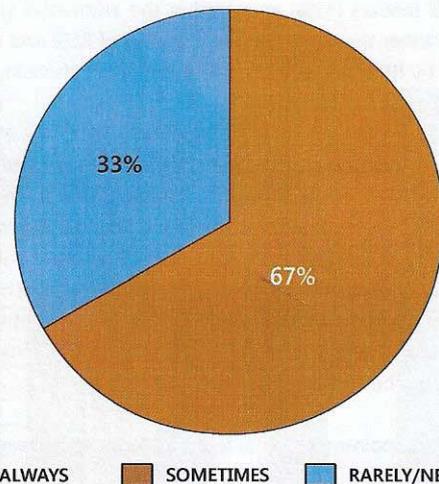
Figure 10: Valuations as a check on another firm's valuation

The survey results suggest that very few desk-top valuations are being commissioned as the majority of lenders stated that they are rarely and never used. Nearly all lenders replied that they do not use non-standard valuations as part of the process of selecting a valuer. The rarest of occasions where they are used, as an early indication of value before a full valuation is when it is necessary to do preliminary work in order to determine whether to go ahead with a proposed transaction. 22% of respondents said they sometimes use desk top valuations as main valuation for a loan where there is another asset offered as security and the probability of default is very low. 2 out of 9 lenders replied that they use desk top valuations as main valuation for loan if there is a proposed development, in which case an opinion of value is provided on the basis of building plans, building and planning permission and bill of quantities.

6.0 Discussion

According to the study, descriptive information invariably appears in valuation reports whereas analytical or interpretative information is unlikely to be provided. Generally lenders are happy with provision of descriptive information and less content with analytical detail in valuation reports such as market commentary, state of economy, valuation methodology adopted and calculation. The survey results on lenders' satisfaction level is corroborated by their responses on perceived weaknesses and solutions in respect of valuation reports. Inadequate market analysis, limited use of comparables and failure to comment on likely market trends were seen as significant weaknesses. Lenders believe that weaknesses could be addressed by stronger emphasis on current demand and supply situation, provision of more information on valuation methodology and calculation and putting in place valuation standards which should be made mandatory on all valuers.

IVS 310 provides that a valuation report for secured lending shall include comment on factors that are relevant to lenders' assessment of the performance of security over the life of the proposed loan. Some examples of the factors are stated as current activity and trends in the relevant market and historic, current and anticipated future demand for the type of property and location. When the survey results on the information content of valuation reports is juxtaposed with the IVS 310 (IVSC,2011), it clearly show that valuation reporting for secured lending in Botswana lags behind international valuation standards.

Lenders valuation standard forms are common whilst valuers forms are used less often. Whilst the study does not provide evidence that the use of lenders' forms contributes to the aforementioned concerns regarding valuers' service, it does raise an important question whether lenders standard forms hinder valuers to provide quality reporting.

Data from the survey indicate that borrowers' influence in the selection of valuer is conditioned by the panel system. As a quality control mechanism the panel system is sacrosanct to the bank's lending process. This is supported by the survey results which show that some lenders still want to retain some measure of control over the choice of valuers even where a borrower has requested the appointment of a certain panel valuer. It has been revealed that there are some lenders who do not operate a panel system and these are more likely to be state-owned financial institutions. Based on the aforementioned results, the most important factors for an external valuer to be listed on the panel are membership of REIB, registration with REAC, experience and qualifications and professional indemnity and insurance.

An interesting observation is that although borrowers in some cases are allowed to select valuers as long as they are on the panel, 45% of lenders always give direct instructions to the valuer and borrowers are more likely to pay and negotiate valuation fees. This means that there are instances where the valuer is instructed and paid by the borrower. Further the reports following such instructions would be shown to the lenders and their use is more likely to happen where that valuer is on the panel and where a lender does not operate a panel system. No doubt, this situation is fertile ground for conflicts of interest between borrowers and banks, which could put the valuers in an unenviable position (ethical dilemma) of being subjected to perverse incentives which could compromise independence and objectivity. This condition presents a loophole for borrowers to shop around for 'opinions' from valuers in the panel that ensures they secure the maximum loan. Over half of lenders are of the view that borrowers have too much involvement in choice of valuers and that they also have too much influence on the valuation outcome. Over half of lenders also believe that conflict of interest is problematic. One lender remarked *"valuers have an inherent conflict of interest in property valuations as long as their fees are based on derived value of the property. Having a flat fee will help maintain independence."* One commented *"clients in most cases influence property values".* Several studies have documented evidence of clients' influence on valuations, the incentives clients may have to influence valuations, powers available to clients to influence valuations and opportunities to influence valuation outcomes (See for example Levy & Schuck (2000). Shi-Ming Yu (2002), Baum et al (2000), Crosby et al (2004), Kinnard et al (1997)).

The survey results are obviously not conclusive in terms of (hard) evidence of borrowers and or lenders' influence on valuations and its extent or impact but it is an area that warrants serious exploration.

Lenders were unanimous in their comments that they do not reveal the details of the terms of loan and purchase price to the valuer. However there is need to *independently* verify whether this is actually the case. If indeed such information is not disclosed, this is ideal as it facilitates the provision of an unbiased opinion of value. And again, the situation presented to borrowers to choose a valuer within the panel system and give direct instructions provides ample opportunity or is a viable conduit for disclosure of agreed purchase price with seller to the valuer. The borrower has an incentive to reveal the purchase price particularly if eager to conclude the transaction. As indicated earlier, research on behavioural aspects of valuation practice has unveiled that disclosure of purchase price has great potential to lead the valuer to confirm the reasonableness of purchase price through biased selection of comparables rather than carry out an objective assess-

ment of Market Value (See Diaz (1990); Gallimore (1995, 1996, 1997); Wolverton (1996); Gallimore and Wolverton (2000)). It is important to note that this behaviour may be self-induced and not out of client influence. Crosby et al (2004) observes that disclosure of purchase price may lead valuer to simply 'confirm' whether such price is within acceptable margin of error or distribution of possible outcomes. Further, where the borrower is given an opportunity to select a valuer, there is also likelihood that the borrower may use reward or coercive power to influence the valuer in order to secure maximum loan to acquire the property (See Levy and Schuck: 2000). Of course there is no evidence, that this does happen and its impact, but it is a real possibility.

The survey results yielded that there is no contact between lenders and valuers from instructions (either by borrowers or lenders) to submission of valuation reports and further that draft valuations are never provided. This is conducive for independent and objective valuation.

The predominant basis of valuation for secured lending is Market Value. Mortgage Lending Value and Projected Market Value are not used. Other bases of valuation used are Forced Sale Value and Insurance Replacement Value. It is unclear whether Mortgage Lending Value and Projected Market Value are familiar concepts to lenders. Further research is required to investigate this and lenders' views on whether

they consider that the bases could play a meaning role in risk management

In accordance with the survey responses, lenders sometimes seek a second opinion to check on another firm's valuation. When giving instruction for second opinion the majority of lenders do not reveal the details of the contested valuation. A series of studies on behavioural aspects of valuation practice have revealed inter alia, that valuers do not always examine all available information, are influenced by knowledge of another person's valuation, but only when valuing in an unfamiliar area and fail to follow procedures in which they have been trained. (see for example (Diaz; 1990, Gallimore & Wolverton; 2000 and Diaz as reported by Baum et al; 2000, Hazard; 2001)). On the basis of these studies it may be hypothesized that the valuer may make a biased interpretation of the market if the contested valuation is disclosed. Therefore this non disclosure augurs well for independence and objectivity. This however needs to be verified through examination of valuers' experiences.

Desktop valuations are few and far between and in the rarest of occasions when they are used as main valuation for a loan is where there is other security and probability of default is very low. It is important to examine lenders' views whether valuers can be held liable for non-standard valuations.

7.0 Conclusion

The main aim of the study is to examine the valuation process for secured lending within the real estate sector in Botswana, particularly from a lenders' perspective. The objective of the study is to explore lenders' perceptions on valuation reporting and instructions procedure, identify the nature of different types of valuations required by lenders and areas which may be a threat to independence and objectivity.

The findings in this study demonstrate that lenders, although satisfied with descriptive information that appears in valuation reports, require sufficient analytical detail to facilitate informed lending decisions. The views of lenders if compared with requirements under International Valuation Standards essentially reveal that valuation reporting for secured lending in Botswana lags behind. Lenders suggest that to address concerns regarding valuation reports, there is need for greater emphasis on market analysis and mandatory valuation standards for all valuers in order to build confidence and trust in the valuation process.

Lenders who do not operate a panel system are a minority and are likely to be state-owned financial institutions. A significant majority of lenders operate a panel system as a quality control mechanism which assists them to enter into relationships or service level agreements with valuers who adhere to good ethical and professional standards. The most important factors considered for selecting a valuer for the panel are membership of REIB, registration with REAC, experience and qualifications and professional indemnity insurance. Even though the survey results show that some lenders want to retain some measure of control by limiting borrowers freedom to choose their preferred valuer in the panel, there are instances where the borrowers' request is approved. There are also cases where borrowers instruct and pay panel valuers. In the aforementioned cases opportunities exist for conflicts of interest, which could put valuers in an ethical dilemma of being subjected to perverse incentives which are a threat to independence and objectivity. There is also a scope within the valuation process for disclosure of provisionally agreed price between the borrower and the seller, where the borrower gives instructions and pays for fees which could lead the valuer not to undertake an objective valuation on account of the great potential for anchoring and adjustment heuristics and sale price validation.

The predominant basis of valuation for secured lending is Market Value. Other bases of value are Forced Sale Value and Insurance Replacement Value. A number of lenders do seek a second opinion to check on whether the valuations are reasonable when in doubt to prevent mortgage fraud or as a credit risk management measure. The survey results show that the contested valuation is not given and if indeed it is true this augurs well for independence and objectivity. Informal valuations are few and therefore are not relied upon for risk assessment purposes and to select valuers.

8.0 Recommendations

The recommendations are as follows:

- The valuer's duty of care is to the lender, so lenders should review the processes for selecting valuers such that they give direct instructions and discharge valuation fees.

- Lenders should require valuers to disclose any material involvement in a property, or a statement that there has not been any previous material involvement in the property.

- Lenders should not use valuers in the following circumstances
  a. Where the valuer has advised the borrower in acquisition
  b. Where the valuer is involved on sales or letting agent capacity in respect of the property, the lending agent is considering a loan advance to the purchaser.

- Where a lender has become aware or concerned about professional misconduct or unethical behaviour by a Valuer it should;
  a. report to REAC & REIB
  b. consider litigation to recover losses

- Bankers' Association, Bank of Botswana, REIB and REAC should be in constant dialogue or set appropriate forums to agree on practice and procedures for robust valuation process for secured lending, particularly in context of prevailing financial environment in Botswana and Basel Accord. This, among others, may entail providing adequate training in valuation methodologies and processes to bridge the knowledge gap of credit management staff.

- REAC should build adequate capacity that ensures a regulatory system that has legitimacy and public confidence through inter alia, cooperating with international professional bodies like International Valuation Standards Council with a view to benefit from their technical assistance.

- REIB should develop valuation standards consistent with the principles of International Valuations Standards to improve the services its members provide. It should establish structures to facilitate that valuers have appropriate qualifications and skills, and coordinate research that would yield innovate ideas to improve service standards.

- Government has a major role to play and should insist on a valuation system that ensures financial stability and consumer protection through effective and efficient regulation.

The above recommendations are central to reducing the risk exposure of market participants.

A number of areas for further in-depth research in the context of Botswana, are suggested as follows:

i. Valuers' perspectives on valuations for secured lending.
ii. Investigation whether current valuation format or forms by lenders inhibit valuers to provide quality reporting.
iii. Further research is required to investigate whether borrowers and or lenders influence of valuations does occur and its extent and whether the pressure has an influence on the valuation outcome.
iv. Examination of the panel system particularly of the process governing the appointment of valuers and how valuers ensure they remain in the panel.
v. An examination to check compliance of valuation reports for secured lending by REIB members with International Valuation standards.

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Appendix One

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Valuation Edge (Pty) Ltd
P. O Box 81159
Gaborone
Tel : 72206613

TO: National Development Bank   18 October 2012

Dear Sir/Madam

RE : RESEARCH QUESTIONNAIRE : VALUATIONS FOR SECURED LENDING

Valuation Edge (Pty) Ltd is undertaking a research project to understand the valuation process for secured lend-
ing in Botswana, particularly from lenders' perspective. The study aims to examine lenders' perceptions or views
and experiences regarding valuation instructions, quality of reporting, nature of different types of valuations
and identify patterns which have potential to be a threat to independence and objectivity. It is envisaged that
the findings would assist in developing effective interventions to minimize risk exposure to market participants.

To this end we kindly request that you complete the questionnaires attached hereto. It should take no longer
than 20 minutes of your time. Information provided by you remains confidential and no individual responses
and comments will be reported.

We would appreciate it if you could contact us at 7220 – 6613 or email mengwedon@yahoo.co.uk for collection
of the completed questionnaires on or before 16 November 2012.

The research paper shall be made available to yourselves and the Real Estate Institute of Botswana (REIB) to
facilitate the development of processes and standards that would build public confidence and trust in the Valu-
ation process.

Should you have any queries or comments regarding this survey,you are welcome to contact us telephonically
at 7220 -6613 or e-mail us at mengwedon@yahoo.co.uk.

Thank You

Yours faithfully

Valuation Edge (Pty) Ltd

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Survey of Lenders
QUESTIONNAIRES

A. Background information on respondents

What type of lender are you?	Commercial		State owned financial institution	Other
Is the main head office of your organization based outside Botswana?	Yes	No		
What is your role in the organization?				
Do you have a professional property qualification?			If so, what?	
Approximately how much Botswana secured lending has been done from the last 12 months from your office	Value: No. of Transactions:			

B. i.) Assessment of Banks' satisfaction with Valuation Reports

Please indicate whether each of the following appears in Valuation Reports and your level of satisfaction

	Yes	No	Too Satisfied	Just Satisfied	Not Satisfied	Indifferent
General location	9		2	7		
Location information specific to property	9		2	7	1	
Physical characteristics	8		2	5	1	
Comment on the suitability of the property as security for mortgage purposes	8	1	1	6	1	
Valuation methodology adopted and calculation	6	3	1	3	5	
Declaration on the extent to which disclosed information on provisionally agreed price has been accepted as evidence of market value	2	6	1			1
Uncertainty of Valuation figure	0	9				
Planning status	5	3	3	1	1	
Market Commentary	6	3	1	2	2	1
Commentary on state of economy	0	9				
General information on comparables	2	7	1		1	
Demand of property and volatility of local market	3	6	1	1	1	
Tenancy details	4	5	1	2		
Commentary on state of lettings market for investment property	4	4	1	2	1	

* Note columns on satisfaction level represent outcome of breakdown of 'yes' response

B. ii.) Assessment of Banks' satisfaction with Valuation Reports

Please rank, in order of importance, the following perceived weaknesses in valuation reports.
Allocate rank of 1 to the most important weakness, rank of 2 to the second most important weakness e.t.c.
Allocate rank of 5 to the least important weakness.

Use each of numbers 1 to 5 only once

Perceived weaknesses in Valuation Reports	Rank
Inadequate market analysis	1,1,1,5,5,1,1,2,1
Limited use of comparables	4,4,3,1,2,2,2,1,3
Failure to comment upon likely market trends	5,3,2,3,4,3,4,3,5
Too much reliance on historic aspects of market performance	3,5,5,4,1,4,5,4,4
Lack of detail and discussion on analytical aspects	2,2,4,2,3,5,3,5,2

B. iii.) Suggested solutions to perceived weaknesses to Valuation Reports

Please rank, in order of importance, the following suggested solutions to perceived weaknesses in valuation Reports. Allocate a rank of 1 to the most important solution, rank of 2 to the most important solution e.t.c. Allocate a rank of 6 to the least important solution.

Use each of numbers 1 to 6 only once

Suggested solutions to weaknesess in Valuation reports	Rank
Need for valuation standards and to be mandatory on all Valuers	1,1,3,1,4,6,2,2,2
Greater emphasis on current supply/demand situation or market analysis	3,4,1,3,1,5,1,5,3
Need for more information on valuation methodology adopted and calculations	2,2,2,2,3,4,3,4,1
Need for Valuers to disclose conflicts of interest	6,3,4,4,2,3,6,3,4
Monitoring of Valuation standards by a professional body (e.g Real estate Institute of Botswana)	5,5,5,5,5,1,4,6,5
Monitory of Valuation standards by a government regulatory body (e.g Real Estate Advisory Council)	4,6,6,6,6,2,5,1,6

B. iv.) Would you pay more for higher quality valuation reports?   YES- 7   NO- 2

C. Form of Reports

Please indicate how often the following occur;

	Always	Sometimes	Rarely	Never	NR
Written reports are given	8			1	
The valuer uses our standard form	7			2	
The Valuer uses their own standard form	3	2		1	3
The Valuer uses their own and our standard form	2	1	1	5	
The report is not on a standard form				7	2

D. Selection of the Valuer

How often is the Valuer chosen by a borrower	Always	Sometimes	Rarely	Never	NR
	2	2	2	1	

Please indicate how you respond in the following circumstances. If the situation never occurs, then please tick the 'Does not occur' box.

	Always	Sometimes	Rarely	Never	Does not occur	NR
If a borrower submit a full valuation report from a panel valuer we will use it	6	2	1			
If a borrower submits a full valuation report from a non – panel valuer we will use it	2		2	4		1
If a borrower suggest a particular panel valuer ,we will appoint that valuer	3	2	3		1	
If a borrower suggests a particular non-panel valuer,we will appoint that valuer	1			6	1	1

Please list three most important factors considered by yourselves in choosing an external valuer for your panel.

1. _____

2. _____

3. _____

Do you consider membership of Real Estate Institute of Botswana (REIB) and registration by Real Estate Advisory Council (REAC) as very important factors in choosing an external valuer for your panel?	**YES - 8** **NO - 0**
Are all your valuation instructions done by external or outside valuers?	**YES - 9** **NO - 0**

If No, who else carries out your valuation instructions; _____

Are circumstances where you appoint a valuer outside Botswana to carry out a valuation for mortgage purposes?	**YES - 0** **NO - 4**

If yes, in what circumstances does this occur? _____

E. Formal appointment of the Valuer

Please indicate how often the following occur;

	Always	Sometimes	Rarely	Never	NR
We directly instruct the valuer	4	3	1	1	
The appointment is in writing	8			1	
We use our own standard instructions	7	1		1	
We write individual instructions for each valuation	4	2		3	
The Valuer's own instructions are used			1	8	
Instructions are the result of negotiations between us and the Valuer		1		5	3
Valuation fees are paid directly to the Valuer by the borrower	3	5		1	
Valuation fees are negotiated directly between the Valuer and the borrower	3	2		3	1
Valuation fees are paid directly to the Valuer by us	2	3	1	3	
Valuation fees are negotiated directly between Valuer and us		4	1	4	

F. The basis of Valuation

	Yes	No	NR
Do you always request for Market Value as basis of valuation	8	1	

	Always	Sometimes	Rarely	Never	NR
A Valuation is requested on the basis of Mortgage Lending Value	3	1		4	
A Valuation is requested on the basis of Projected Market Value		3		5	1

If other bases of valuations are used please specify: _____

G. Information Flow

Please indicate how often the following occur;

	Always	Sometimes	Rarely	Never	NR
We inform the Valuer of the amount of the proposed loan				9	
We inform the Valuer of other terms of the loan (such as duration)				9	
We inform the Valuer of the identity of the borrower	3		2	3	1
Where property has just been, or is being purchased we inform the Valuer of the agreed price		1		7	1
We discuss the Valuation figure with the Valuer whilst the valuation is in draft form		1		8	
We discuss aspects of the valuation, other than the figure, with the Valuer whilst the valuation is in draft form		1	1	7	
Where we have discussions on the draft valuation with the Valuer, the valuation figure changes as a result.		1	1	7	

H. Valuations as a check on another firm's valuation

	Always	Sometimes	Rarely	Never	NR
How often do you commission a valuation as check on another firm's valuation		6	2	1	

In what circumstances does this occur? _____

_____

_____

_____

What do you normally require the Valuer to do? _____

_____

_____

_____

In this particular situation, please indicate how often the following occur;

	Always	Sometimes	Rarely	Never	NR
The instructions are given in writing	8			1	
The valuer confirms in writing what is to be done	1	4	1	2	
The valuation is given in writing	8			1	
A fee is paid	8			1	

I. Non-standard Valuations

The following questions relate to the use of valuations variously described as desk-top, arm-chair, drive by and pavement valuations.

a.)

	Always	Sometimes	Rarely	Never	NR
How often do you ask for any of the above non-standard types of valuation as part of the process of selecting a valuer		2	2	4	1

In what circumstances does this occur?

What do you normally require the valuer to do?

In this particular situation, how often do the fol-lowing occur?	Always	Usually	Half the time	Seldom	Never	NR
i) The instructions are given in writing	2	1			3	4
ii) The Valuer confirms in writing what is to be done	1		1		4	1
iii) The Valuation is given in writing	3				3	1
iv) A fee is paid	3				3	1

b.)

	Always	Sometimes	Rarely	Never	NR
How often do you ask for any of the above non–standard types of valuation from the appointed valuer as an early indication of value before the valuer gives a full valuation?		1	2	6	

In what circumstances does this occur?

What do you normally require the valuer to do?

In this particular situation, how often do the fol-lowing occur?	Always	Usually	Half the time	Seldom	Never	NR
i) The instructions are given in writing		1		1	4	3
ii) The Valuer confirms in writing what is to be done	1			1	4	3
iii) The Valuation is given in writing	1			1	4	3
iv) A fee is paid				1	4	3

c.)

	Always	Sometimes	Rarely	Never	NR
How often do you ask for any of the above non–standard types of valuation as the main valuation for a loan?		1	2	4	2

a.)

	Always	Sometimes	Rarely	Never	NR
How often do you ask for any of the above non–standard types of valuation as part of the process of selecting a valuer		2	2	4	1

In what circumstances does this occur?

_____

_____

What do you normally require the valuer to do?

_____

_____

_____

In this particular situation, how often do the fol-lowing occur?	Always	Usually	Half the time	Seldom	Never	NR
i) The instructions are given in writing	2			1	3	4
ii) The Valuer confirms in writing what is to be done	1		1		4	1
iii) The Valuation is given in writing	3				3	1
iv) A fee is paid	3				3	1

b.)

	Always	Sometimes	Rarely	Never	NR
How often do you ask for any of the above non–standard types of valuation from the appointed valuer as an early indication of value before the valuer gives you a full valuation?		1	2	6	

In what circumstances does this occur?

_____

_____

What do you normally require the valuer to do?

_____

_____

_____

_____

In this particular situation, how often do the fol-lowing occur?	Always	Usually	Half the time	Seldom	Never	NR
i) The instructions are given in writing	1			1	4	3
ii) The Valuer confirms in writing what is to be done	1			1	4	3
iii) The Valuation is given in writing	1			1	4	3
iv) A fee is paid				1	4	3

c.)

	Always	Sometimes	Rarely	Never	NR
How often do you ask for any of the above non–standard types of valuation as the main valuation for a loan?		1	2	4	2

In what circumstances does this occur? _____

_____

_____

What do you normally require the valuer to do? _____

_____

_____

_____

In this particular situation, how often do the following occur?	Always	Usually	Half the time	Seldom	Never	NR
i) The instructions are given in writing	3				4	2
ii) The Valuer confirms in writing what is to be done		2	1		4	2
iii) The Valuation is given in writing	3				4	2
iv) A fee is paid	3				4	2

J. Opinions

Please indicate your view by ticking the appropriate box;	Strongly Disagree	Agree	Neither agree or disagree	Disagree	Strongly Disagree	NR
Borrowers have too much involvement in the choice of valuers		5	1	1	1	
Valuers undertake valuations without declaring conflicts of interest		5	1		2	
The extent of valuers' conflict of interest is a problem to lenders		5	3		1	
Borrowers have too much influence on the valuation outcome		4	4		1	
We are happy with Market Value as the primary basis of valuation		4	2	2		
We require alternative bases of valuation		2	2	1	2	1
The valuation figure is less important than the other information in the valuation report.		4	2	2	1	

In the space provided below, please give any additional comments. Please continue comments on a separate sheet if you wish _____

_____

_____

_____

_____

_____

_____

_____

_____

_____

Please return to Donald Mengwe: Valuation Edge (Pty) Ltd: Fax No : 397 - 2015

Thank You for your assistance with this research

Appendix Two

List of organizations that took part in the research

Bank of Botswana, Research Department
Bank Gaborone
First National Bank
Barclays Bank
Kingdom Bank
Botswana Savings Bank
Botswana Buiding Society
Citizen Entrepreneurial Development Agency
National Development Bank
Stanbic