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**RE: Consultation on Directive on Credit Agreements for Consumers Relating to Residential
Immovable Property**

Dear Ms Carrick

I refer to the Department of Finance consultation on the '**Directive on Credit Agreements for Consumers Relating to Residential Immovable Property**'.

As you know, the Society of Chartered Surveyors Ireland (SCSI) is the independent professional body for Chartered Surveyors working and practicing in Ireland. Working in partnership with Royal Institution of Chartered Surveyors (RICS), the global body for Chartered Surveyors, our role is to work and act in the public interest by setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and government.

The SCSI welcomes the impending transposition of the Mortgage Credit Directive 2014/17/EU which intends to establish a legal framework for the provision of harmonising mortgage credit agreements in the European Union. The Directive seeks to address differing mortgage credit agreements throughout the EU and to harmonise these as much as possible to promote transparency in the market place and to establish principles on sound underwriting standards in relation to residential immovable property.

One of the specialist professional practice areas of Chartered Surveyors is providing professional services and advice in relation to **property valuation** and it is from this perspective that the Society's submission is made and therefore confined to commenting on Recital 26 and Article 19 of the Directive, that provides:

Recital 26:

*It is important to ensure that the residential immovable property is appropriately valued before the conclusion of the credit agreement and, in particular where the valuation affects the residual obligation of the consumer in the event of default. Member States should therefore ensure that reliable valuation standards are in place. In order to be considered reliable, valuation standards should take into account internationally recognised valuation standards, in particular those developed by the International Valuation Standards Committee, the European Group of Valuers' Associations or the **Royal Institution of Chartered Surveyors**. Those internationally recognised valuation standards contain high level principles which require creditors, amongst others, to adopt*

and adhere to adequate internal risk management and securities management processes, which include sound appraisal processes, to adopt appraisal standards and methods that lead to realistic and substantiated property appraisals in order to ensure that all appraisal reports are prepared with appropriate professional skill and diligence and that appraisers meet certain qualification requirements and to maintain adequate appraisal documentation for securities that is comprehensive and plausible. In this regard it is desirable to ensure appropriate monitoring of residential immovable property markets and for the mechanisms in such provisions to be in line with Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ⁽⁶⁾. The provisions of this Directive relating to property valuation standards can be complied with for example through law or self-regulation.

Article 19:

- 1. Member States shall ensure that reliable standards for the valuation of residential immovable property for mortgage lending purposes are developed within their territory. Member States shall require creditors to ensure that those standards are used where they carry out a property valuation or to take reasonable steps to ensure that those standards are applied where a valuation is conducted by a third party. Where national authorities are responsible for regulating independent appraisers who carry out property valuations they shall ensure that they comply with the national rules that are in place.*

- 2. Member States shall ensure that internal and external appraisers conducting property valuations are professionally competent and sufficiently independent from the credit underwriting process so that they can provide an impartial and objective valuation, which shall be documented in a durable medium and of which a record should be kept by the creditor.*

Three key aspects arise from the text of the Directive as follows:

- (1) Valuation Standards in Ireland
- (2) Competence and Independence of Valuers
- (3) Regulation of Valuers

Valuation Standards in Ireland:

In Ireland, the valuation standards most commonly adopted by financial institutions and the valuation profession are those that have emanated from the Royal Institutions of Chartered Surveyors (RICS). Such valuation standards have existed and been adapted in Ireland since the mid-1970's and in the past were mainly used for the purpose of commercial property transactions as the valuation practice of Chartered Surveyors at that time was primarily confined to those practicing in the area of commercial property transactions. Such standards are mandatory for those who are members of SCS/RICS.

Following on from the property crash of 2008, and the subsequent first draft of a report published by the Central Bank in 2011 (final version published in 2012), *'Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future'*, it was highlighted that many professionals in the banking industry lacked the appreciation and significance of property valuations in the lending process. The report referred to the valuation standards and principles developed by the RICS/SCSI, in accordance with international valuation standards, also **known as the Red Book**.

At the same time, in April 2011, the SCS merged with the IAVI (Institute of Auctioneers & Valuers in Ireland) to form the Society of Chartered Surveyors Ireland and its membership base now expanded to include valuers who undertook valuation of residential property and in particular for residential property mortgages. A new standard was developed for residential mortgage valuations and launched in 2012 and made mandatory for those who are members of SCSI/RICS.

Competence and Independence of Valuers:

The Red Book is a mandatory Practice Standard for all SCSI/RICS members carrying out mortgage valuations. It contains full procedures for preparing valuation reports including conflict of interest checks, terms of engagement, instructions and the provision of clear reasoning and use of relevant comparables. Appendix 1 provides a summary of the normal scope of a valuation report.

Professional Standard 2, also known as PS2, provides as follows:

'As it is fundamental to the integrity of the valuation process, all members practising as valuers must have the appropriate experience, skill and judgment for the task in question and must always act in a professional manner free from any undue influence, bias or conflict of interest'.

An elaboration of the above PS2 specific to **'member qualification'** is provided in paragraphs 3.1 to 3.7, set out in Appendix 2.

An elaboration of the above PS2 specific to **'independence, objectivity and conflict of interest'** is provided in paragraphs 4.1 to 4.15, set out in Appendix 2.

Regulation of Valuers:

In Ireland, the professional practice of 'valuation' is not governed by legislative statute. Valuation standards are developed by the profession in keeping with international valuation standards and professional practice in valuation is overseen by the professional body¹.

The Red Book is available to all professional and competent valuers and may be used by any suitably qualified valuer, even those that are not members of SCSI.

By way of an additional safeguard to ensure that appropriate property valuations standards are being met, the SCSI introduced the **RICS Valuer Registration Scheme (VRS)** in Ireland in July 2012. This quality assurance scheme seeks to **minimise the risk associated with valuations** by auditing and monitoring the valuations conducted by those who subscribe to the Scheme, thereby providing assurance to clients, including credit institutions that the professionals they are engaging to

¹ It should be noted that the Property Services Regulatory Authority was established in July 2012 to oversee the regulation of 'Property Service Providers', those who provide property services, however, valuation services are not captured by the legislation, Property Services (Regulation) Act, 2011.

undertake valuations of significant assets on their balance sheets are subject to international regulation. The Scheme is mandatory in the UK, and while it remains voluntary in Ireland, it will be made a mandatory requirement for all SCSi/RICS members in Ireland in 2015 thereby ensuring consistent application of the internationally accepted Red Book valuation standards in Ireland.

A valuer who becomes a 'Registered Valuer' under the scheme undertakes an annual registration, demonstration of ongoing experience and up-to-date knowledge and regular monitoring of their valuation procedures. A summary of the auditing and monitoring process under the Valuer Registration Scheme is set out in Appendix 3.

Conclusion:

Valuation standards in respect of residential mortgage valuations are available in Ireland under the SCSi/RICS Red Book since 2012 which ensures that all members of SCSi/RICS practising as valuers must have the appropriate experience, skill and judgment for the task in question and must always act in a professional manner free from any undue influence, bias or conflict of interest, as set out in PS2.

Regulation of valuation services is overseen by the SCSi/RICS quality assurance scheme, known as the **RICS Valuer Registration Scheme (VRS)** since July 2012. While currently a voluntary scheme, this scheme will be made mandatory for all valuers who are SCSi/RICS members in 2015 in order to engender confidence in, and to provide assurance to, clients and recognised users alike, that a valuation provided by an SCSi/RICS qualified valuer will be undertaken to the highest professional standards overall.

An essential component of ensuring the integrity of the valuation process is the requirement that financial institutions *demand* that all residential mortgage valuations are undertaken in keeping with international standards, such as the Red Book that is in full compliance with the International Valuation Standards (IVS).

Finally, the Society of Chartered Surveyors Ireland looks forward to engaging further with the Department of Finance in ensuring the effective implementation of Article 19 of the Directive.

Yours sincerely



Ciara Murphy
DIRECTOR GENERAL