



What Lenders Want from Mortgage Valuation Reports: A Survey of Nigeria Banks

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ABSTRACT

For over a decade now, the Nigerian real estate industry has witnessed a steady but continuous growth as via the participatory activities of major private sector players both nationally and internationally. Hence, the need to urgently explore the requirements of valuation report users is eminent as the report serves as an important input to lenders' decision making.

Surveying the existing twenty-two (22) Nigerian banks as prime users of valuation reports in the country, this study examines the need of these banks vis-a-vis the report content with a view to determine their needs and further improve on the quality of valuers' reports.

The needs of the banks were examined in accordance with the reporting format of Nigerian valuation reports. Using mean ranking coupled with the relative importance index (RII) methods, retrieved data were analysed and findings showed that lenders require more explicit details relating to salient aspects of the property market in valuation reports which include valuation calculations and uncertainty in valuation figures.

The study concluded that the profession of estate surveyors and valuers should be mindful of the new expectation of their clients and try as much as possible to meet those expectations to retain the reliability of valuation reports in Nigeria.

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1. Introduction

A thorough valuation report is expected to provide a substantial level of professional shielding to property developers from the risks and problems of wrong investment decisions being an avenue by which professional information is conveyed to clients who commissioned reports. It must, therefore, meet the need of the client as well as uphold the standards set for the valuation profession [1]. However, observations infer that appraisers may not necessarily be meeting the need of the client but rather focuses on meeting a long list of requirements and rules within a defined format [5]. [13] also asserts that, the reports clients are getting are hardly what serious clients want and need because what they want is the truth, packaged in a convenient form. The author further stressed that serious clients deserve reports that let them find what they want to know without plowing through reams of confused thought patterns and bad writing. They not only want enough content to evaluate appraiser's findings, they want to save time and money because they are busy people.

[4] studied three groups of people involved in the preparation and use of valuation reports; commercial lenders, commercial valuers and residential valuers. Overall, findings showed that lenders professed general satisfaction with valuation reports although satisfaction was less for the levels of analysis and interpretation compared with the overall quality and the perceived accuracy of the valuation figure. However, in a similar Australian study, [8] examined the improvement in quality of valuation reports between 1998 and 2004 and discovered that there was an increase in the use of DCF analysis and a greater number of clients were satisfied with the valuation report standards.

[2] examined the mortgage valuation process in Lagos metropolis by administering questionnaires randomly on Estate Surveying and Valuation firms as well as lending institutions with the intention of discovering whether the contents of mortgage valuation reports met the needs of client while upholding the standards set for such valuation in the profession. Comparing the views of both of estate surveyors and lending institutions with respect to the information content of mortgage valuation reports, the author's findings revealed that mortgage valuation reports presented by valuers are not currently meeting the needs and demands of lending institutions.

[10] examined clients' perception of valuation report quality in Lagos Metropolis. Questionnaires were distributed to a total number of twenty-five (25) banks and one hundred and sixty-three (163) estate surveying and valuation firms. The study compared seventy-eight (78)

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valuation reports to ascertain if the valuation reports of the estate surveyors and valuers met up with standards set by the Nigerian Institution of Estate Surveyors and Valuers (NIESV). Data collected were analyzed using non-parametric statistics and the result of the examination of seventy-eight (78) valuers' reports in comparison with the standard expected showed that valuers' reports were meeting the institution's set standard. Sixty-two percent (62%) of the banks are at least satisfied with the overall content of their valuation reports however, the examination of clients' needs revealed that they would prefer to see more details on "demand information of the larger property market". "Valuation calculations to convince them how the valuers arrived at stipulated values" ranked first in clients requirement with a mean rank of 3.85 while a portion stating "the complexity of the market" and also "the position of the property in the market" ranked second with a mean value of 3.77. Lastly, more emphasis on "the analytical aspects of the valuation" and the estate surveyors and valuers should state "how certain they are about the valuation figures" ranked third (mean = 3.69) in their reports. In conclusion, the study pointed out the need for greater understanding between estate surveyors and their clients with respect to clients need.

A further study by [11] clients' perception of valuation report quality was considered with a view of determining clients' satisfaction level and thus improving on the quality of valuers' reports. The result revealed that 62% of the banks (clients) were at least satisfied with the overall content of the valuation report they received from valuers however, results showed that clients wanted more improvement on details of tenancies which seldom appear; details on specific comparables; general information on comparables; state of letting market; valuation calculations and uncertainty in valuation figures in their valuation reports.

It is obvious from the foregoing that nations of the world are persistently concerned with the desire to satisfy clients' needs through quality valuation reporting ([14]; [4] in UK; [8] in Australia; [12] in Malaysia; [1], [2]; and [10], [11] in Nigeria). The general conclusion from some of these studies show that the overall quality of valuation reports has fallen, hence these reports fail to meet clients' need. Therefore, there is a need to carry out a study on what clients mortgage valuation actually want from their reports with a view of meeting such needs.

1.1. Theoretical Framework

Newell [7] and [8] proposed a theoretical framework upon which clients' need and expectation of valuation reports should be based. According to these authors, the needs and expectations of clients are that: there should be adequate information on market trend, tenant strength and valuation methodology; clients want to see more regulation of valuers through professional institutional guidelines while very few requested more government regulation; valuers need to provide additional information in valuation reports concerning conditions and trends in property and the state of the wider investment market; the comparable transactions data on which the valuation is based should be included in the report; greater emphasis is needed on market dynamics/future performance; there should not be too much generalisation and unrealistic future projection in valuation reports; client wants to have better understanding of market position of the particular property/projects; there is need for a greater emphasis on the current supply and demand situation in the market and that report should contain information on the state of the economy.

2. Research Methodology

To achieve the objectives of the study, the researcher administered questionnaires to twenty-two (22) officers of the banks in their credit departments that handle valuation report for mortgage purposes as they are in a better position to ascertain their needs with respect to the content of valuation report. This was also followed up with interview with some of the officers in the credit department of each of the banks willing to be interviewed. With respect to the questionnaire distribution, a total of thirteen (13) questionnaires were received and found useful. These represent a total survey responses rate of seventy-seven percent (59%). For the interview section, only eleven (11) officers, one each from the banks were willing to be interviewed. This again represented fifty percent (50%) of the sampled population. Data was analysed thereafter using a descriptive statistical technique.

3. Results

3.1. General Information

In attempt to determine the reliability of data collected for the study and for deduction of inferences, the researcher sought information on the frequency of valuation exercises commissioned by the banks and methods by which the jobs commissioned. Full details of the survey respondents are shown in Tables 1 and 2.

3.1.1. Frequency of Mortgage Valuation

The analysis in Table 1 showed the number and frequency of mortgage valuation jobs commissioned by the banks. The response shows that majority (85%) of the banks commissioned valuations for mortgage purposes on monthly basis.

Table 1. Frequency of Mortgage Valuation Jobs Commissioned by Banks

Frequency of Valuation	Frequency Count	Percentage %
Monthly	11	85
Quarterly	2	15
Yearly	0	0
TOTAL	13	100

Source: Field Survey 2011

3.1.2. Method of Commissioning Valuation Report

On the mode by which valuation jobs were commissioned, enquiries as to the in-house/outsourced options showed a response of 100% outsourcing of valuation jobs to valuers.

Table 2. Method of Commissioning Valuation Report

Method	Frequency Count	Percentage (%)
In- House	0	0
Outsourced	13	100
TOTAL	13	100

Source: Field Survey 2011

With these results, it can be inferred that virtually all the banks sampled were conversant with issues of mortgage valuation and its reporting, hence, the result can therefore be relied upon to provide reliable data on the study.

3.2. Clients' Needs in Valuation Reports

In presenting the results of the questionnaire survey, the study examined clients' need with respect to valuation reports. Tables 3 and 4 give a detailed analysis of the responses from the banks. Respondents' responses were assigned 4, 3, 2 and 1 to "Most Significant", "Significant", "Less Significant" and "Not Significant" respectively and mean calculated.

Table 3. Clients' Needs in Valuation Reports

Parameters	Most Significant (4)	Significant (3)	Less Significant (2)	Not Significant (1)	Mean
State of the economy as at the date of valuation	9(69.2)	3(23.1)	0(0.0)	1(7.7)	3.54
General location	7(53.9)	6(46.2)	0(0.0)	0(0.0)	3.54
Physical features	7(53.9)	6(46.2)	0(0.0)	0(0.0)	3.54
General Suitability for Lending	8(61.5)	4(30.8)	1(7.7)	0(0.0)	3.54
Valuation method	9(69.2)	3(23.1)	1(7.7)	0(0.0)	3.62
Suitability of specific property for a loan at the amount and on terms proposed	11(84.6)	2(15.4)	0(0.0)	0(0.0)	3.85
State of the letting market for the property	0(0.0)	0(0.0)	5(38.5)	8(61.5)	1.38
Specific Location	10(76.9)	3(23.1)	0(0.0)	0(0.0)	3.77
General information on Comparables	0(0.0)	2(15.4)	5(38.5)	6(46.2)	1.69
Details of Tenancies	0(0.0)	1(7.7)	5(38.5)	7(53.9)	1.54
Demand for property	11(84.6)	2(15.4)	0(0.0)	0(0.0)	3.85
Specific comparables	1(7.7)	2(15.4)	4(30.8)	6(46.2)	1.85
Valuation Calculations	11(84.6)	2(15.4)	0(0.0)	0(0.0)	3.85
Uncertainty of Valuation figures	9(69.2)	4(30.8)	0(0.0)	0(0.0)	3.69
More emphases should be made on the analytical aspects of the valuation	9(69.2)	4(30.8)	0(0.0)	0(0.0)	3.69
There should be a portion stating the complexity of the market and also the position of the property in the market	10(76.9)	3(23.1)	0(0.0)	0(0.0)	3.77

Source: Field Survey 2011

Note: The Figures in brackets are percentages of responses

According to the banks, the state of the economy as at the date of valuation, general location, physical features, general suitability of the property for lending, valuation method used to value the property, suitability of a specific property for a loan at the amount and on terms proposed, specific location, uncertainty of valuation figures, valuation calculation, emphases on the analytical aspects of the valuation and availability of a portion stating the complexity of the market and also the position of the property in the market are information that are considered necessary and would prefer to see these elements in their valuation reports. Except for items like specific comparables (1.85), general information on comparables (1.69), details of Tenancies (1.54) which they believe are less significant even when included in valuation reports, banks opine that adding the state of the letting market for the property is not significant to them at all.

The banks, according to the analysis above would prefer mostly to see a portion of the report stating the market demand for the property, the valuers' calculation and the suitability of specific property for a loan at the amount and on terms proposed. This is because they have the highest resulting mean of 3.85 when compared to others. In particular, the banks are interested in seeing valuers' calculations because they believe that such can assist them in appreciating how the valuation figures are arrived at.

Lack of detailed formal instructions, in some cases might be the reason why some of the clients' needs are not met in addition to the provision of minimal information in support of valuation figures on the part of estate surveyors and valuers as can be seen in the analysis above.

To further determine the needs and expectation of clients with respect to the contents of valuation reports, the respondents were asked to rank the items in valuation reports which they would prefer to see in order of importance using relative importance index (RII) scores. The outcome of this analysis is shown in the analysis in Table 4 below:

Table 4. Ranking of Clients Need and Expectation of the Contents of Valuation Reports in Order of Priority.

Parameters	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	RII	RANK
State of the economy as at the date of valuation	0	2	1	3	1	3	1	1	0	0	1	0	0	0	0	0	0.74	5 th
General location	0	4	2	0	2	1	0	0	0	0	1	2	0	0	1	0	0.68	6 th
Physical features	3	1	2	2	1	1	1	1	0	0	0	0	0	1	0	0	0.78	4 th
General Suitability for Lending	2	2	3	1	3	0	1	0	1	0	0	0	0	0	0	0	0.82	3 rd
Valuation method	0	0	0	0	0	0	1	0	0	0	3	2	4	3	0	0	0.30	14 th
Suitability of specific property for a loan at the amount and on terms proposed	2	4	0	2	1	3	0	1	0	0	0	0	0	0	0	0	0.83	2 nd
State of the letting market for the property	0	0	0	0	0	2	0	0	0	0	0	4	3	3	0	1	0.31	13 th
Specific Location	1	0	1	2	0	0	3	0	0	2	2	0	1	0	1	0	0.57	7 th
General information on Comparables	0	0	0	0	0	0	0	0	0	1	1	1	1	1	5	3	0.18	15 th
Details of Tenancies	0	0	0	0	0	0	0	0	0	0	1	0	0	0	4	8	0.11	16 th
Demand for property	4	0	2	2	3	1	1	0	0	0	0	0	0	0	0	0	0.84	1 st
Specific comparables	0	0	0	0	1	0	0	1	0	2	0	2	2	4	1	0	0.32	12 th
Valuation Calculations	1	0	0	0	0	0	1	1	3	4	0	0	0	1	1	1	0.45	11 th
Uncertainty of Valuation figures	0	0	1	0	1	1	1	2	5	2	0	0	0	0	0	0	0.57	7 th
More emphases should be made on the analytical aspects of the valuation	0	0	1	0	0	0	2	4	4	1	0	1	0	0	0	0	0.55	9 th
There should be a portion stating the complexity of the market and also the position of the property in the market	0	0	0	1	0	1	1	2	0	1	4	2	1	0	0	0	0.47	10 th

Source: Field Survey 2011

The ranking of the contents of valuation reports by the banks show that they are particularly interested in seeing in the valuation reports, the demand for the property being valued before they could consider (such reports as having high quality) giving out loan for such a property. This is seen in our analysis above with RII of 0.84 (1st). This was closely followed by the suitability of specific property for a loan at the amount and on terms proposed (0.83, 2nd) and general suitability for lending (0.82, 3rd). In a similar vein, the banks ranked valuation method 14th with RII of 0.30, general information on comparables 15th with RII 0.18 and details of tenancies 16th with RII of 0.11 as not being too significant to them. This further confirms the analysis in Table 3 which centers on preference of valuation report content. In the analysis (Table 3) the banks were of the opinion that general information on comparables and details of tenancies (1.69 and 1.54) are of less significance in their valuation report.

Judging from the foregoing findings, one can conclude that the banks are interested in the security of their loan hence they would prefer the valuation report to include statements that would give them confidence that their money to the borrower is secured.

3.2.1. Interview Section with Bank Officers

Enquiries made to banks as to if attempts (if any) to ask for additional information in their valuation reports after submission by valuers were obliged, 62% of the banks confirmed that they have been faced with such situations but not in all cases were they provided with all the information requested for. 23% of banks indicated that their requests were bluntly turned down by valuers with the excuse that the information required by the banks such as the inclusion of valuers' computation of valuation figures was not included because such were irrelevant in the art of valuation reporting.

The remaining 15% confirmed that the valuers' reports have always met their needs hence, there was no need to request for additional information in their report.

4. Conclusion

From the findings, it is considered that the following clients' needs have to be addressed for the estate surveyors and valuers to continually relevant in the Nigerian property market. The need for the NIESV to update their valuation reporting standard by including in their reports how some of the figures given by estate surveyors and valuers are arrived is deemed paramount. This need include the derivation/arrival of valuation figure (as this is expected to aid banks in cases of a forfeiture) and demand for the property. There is also the need for detailed instructions and improved communication between clients and valuers concerning each other's needs so that these needs can be met.

As clients are demanding more information, valuers and their professional institutions should consider how it might be provided and communicated. Furthermore, it is also suggested that there is need for regular interaction and closer collaboration between the clients and the estate surveyors so as to meet clients' needs and improve practice. Finally, estate surveyors and valuers must not only provide the services expected of them, they must be able to establish what client require vividly.

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