

IsIVI's Note

The EU-Commission's White Paper on Mortgage Credit

Please find below some brief notes.

I. Context

In annex 3 to the Impact Assessment, the Commission outlines the variety of different roles of valuation and the rules governing property valuations and valuers.

Do you agree with the context the Commission identifies with regard to property valuation in the EU?

Yes, we do. Finally the Mortgage Credit Working Group enters much deeper into the valuations problem than they did in occasion of the Green Paper. The main point is to recognize TEGoVA as the sole European standard valuation provider. In fact, there is no competition between IVS and EVS since they refer to two complimentary areas (the first the entire world and the second exclusively Europe).

This is very important since the EVS shall therefore cover all the issue raised in a so complex legal and economic system as those of the EU framework.

USA and Europe are the only two similar system, there are no any other example in the world. In such way TEGoVA may be compare to the Appraisal Foundation which sets the “Uniform Standards of Professional Appraisal Practice and Advisory opinions” or USPAP. USPAP is fully in compliance with IVS too, but much more detailed and focusing on the US federal legislation.

II. Problem Description & Objectives

In annex 3 to the Impact Assessment, the Commission identifies **two main problems** with property valuation in a cross-border context:

- **Reliability of the valuation and usability of the valuation report:**
 - Different valuation principles (definitions and reporting requirements) in Member States
 - Different valuation methods in Member States
 - Different standards for the professional qualification of property valuers

The Commission also identifies the **possible consequences** of these problems:

- **For mortgage lenders:**
 - Uncertainty regarding the quality and reliability of the valuation => report uncertainty regarding the true value of the collateral
 - Uncertainty regarding the acceptance of the report by public authorities
 - Compliance with two sets of valuation rules
 - Higher costs, for instance for funding and reduced scope for economies of scale
 - Mortgage lenders may be deterred from cross-border activity on primary and/or secondary markets
 - Reduced competition

- **For investors:**
 - Uncertainty regarding the value of underlying security => reduced demand or higher premium

- **For consumers:**
 - Higher prices
 - Reduced product diversity

Do you agree with the problems identified by the Commission? Are you of the opinion that there are additional problems? If yes, what are they?

We agree on such analysis which positively consider the valuation report. In occasion of the Green Paper, the London School of Economics doubted the importance of the valuation with statistic reasons, but finally also such study refused such thesis. The mortgage insurance companies supported internally the importance of the valuations of all the credit risk transfer (CRT) systems. That was even before the massive credit crisis we are currently experience. The CRT asset based systems (for example, MBS, Cover Bonds ect) shall relayed on a full investigation of the underling risk.

Can you provide any additional information to evidence the problems outlined by the Commission?

We believe that the existence of a Property and Market rating analysis (PaM) in place during the placement of the AMBS provided by valuers together with the rating of the issuer provided by the rating agency should have been an effective instrument to reduce the today crisis.

Do you agree with the consequences identified by the Commission? Are you of the opinion that there are additional consequences for the stakeholders in question? If yes, what are they?

No particular comments

III. Objectives

In annex 3 to the Impact Assessment, the Commission notes that in general terms, it seeks to remove the economic and legal barriers to the cross-border supply of mortgage credit. Having identified the problems above, with regard to property valuation, the Commission aims to:

- Remove the obstacles to the use of foreign valuation reports; and
- Promote the development and use of reliable valuation standards.

Do you agree with these objectives ? How should TEGoVA promote EVS ?

Yes, we agree with these objectives. The national association shall make aware the local authorities of the European mortgage process of harmonization and of the role assigned by the EU to TEGoVA.

TEGoVA shall better promote itself, its role is significant and is a big responsibility.

Should the Commission pursue additional objectives with regard to property valuation?

In general terms they are enough. The professional recognition is an ancillary issue which shall be considered.

IV. Description of options

With a view to determining how to achieve the identified objectives, in annex 3 to the Impact Assessment the Commission explores and assesses five options: option 1 - do nothing, option 2 - self-regulation, option 3 - recommendation, option 4 - legislation based on mutual recognition of valuation standards and option 5 - legislation based on harmonisation.

In comparing the options, the Commission concludes that while options 3 and 5 both have the potential to remove the obstacles identified, option 5 is disproportionate to the scope of the problems given the move of the market towards the application of international valuation standards. The Commission therefore proposes option 3, a recommendation to Member States, as the most appropriate moving forward. As outlined above, the Recommendation would “invite Member States to facilitate the use of foreign valuation reports, and promote the development and use of reliable valuation standards”.

Do you agree with the Commission’s assessment of the options outlined in annex 3?

The recommendation shall make reference to should an European valuation standard. The IVS is a global standard that do not face the complex EC legal framework. The EVS shall be in compliance with the IVS no doubt, but, similarly to the USPAP, the EVS shall be much more severe and fully in compliance with all the EU directives and regulations.

In its position paper to the Commission's Green Paper on Mortgage Credit, TEGoVA emphasized that a recommendation to Member States is the most appropriate instrument to achieve the Commission's objectives with regard to property valuation. Do we maintain this option ?

We agree on such position subject to the note above.

If you are of the opinion that the Commission should pursue additional objectives (see qu.6), what would to be the most appropriate instrument to achieve these?

As to the certification of the valuation profession, the Commission makes reference to the Capital Requirements Directive, but it is not enough. It should be given more stricit requirement for the valuers also in this ambit.