



Australian Property Institute

25.0 - Restricted Valuation Supporting Memorandum
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RESTRICTED VALUATION SUPPORTING MEMORANDUM

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1.0 Introduction

1.1 Purpose

This Supporting Memorandum ("Memorandum") provides the basis upon which Members of the Australian Property Institute (API) who are Certified Practising Valuers (CPVs) will carry out Restricted Valuations for residential mortgage purposes and the basis upon which their Lender clients will use and accept Restricted Valuations.

1.2 Definition

A Restricted Valuation is a valuation carried out in accordance with this Supporting Memorandum in the format titled "Restricted Valuation – Residential Property" Copyright API 2001.

1.3 Scope

A CPV who provides a Restricted Valuation for residential mortgage purposes must do so in accordance with the provisions of this Memorandum. Any CPV carrying out a Restricted Valuation in accordance with the provisions of this Memorandum and the Restricted Valuation - Residential Property pro-forma report will not be in breach of the Institute's Constitution, By Laws, Rules of Conduct or professional practice standards.

- 1.4 CPV undertaking a Restricted Valuation do so pursuant to Rule 1.10 of the API's Rules of Conduct.
- 1.5 A Lender client who instructs a CPV to do a Restricted Valuation must do so in accordance with the provisions of this Memorandum and in doing so agrees to accept the commercial risks inherent in relying upon a Restricted Valuation as described in this Memorandum and the immunities and indemnities in favour of the CPV provided within this Memorandum.
- 1.6 This Memorandum sets out the requirements that Lender clients must comply with in requesting, and CPV must comply with in providing, a Restricted Valuation for residential mortgage purposes. In particular, it provides important information to Lender clients and CPV in relation to:

- prerequisites for the provision of a Restricted Valuation;
- the type of property it is intended for;
- information to be provided to the CPV by the Lender client;
- the Restricted Valuation process and responsibilities of the Lender client and CPV;
- the provision of an Indicative Market Value Range;
- the circumstances when a PropertyPRO Residential Valuation and Security Assessment is required in place of a Restricted Valuation;
- the commercial risks upon the Lender client of relying on a Restricted Valuation, and
- the restriction on the release of a Restricted Valuation report to third parties.

2.0 Background

- 2.1 The Institute acknowledges that Lender clients will not always require a PropertyPRO Residential Valuation and Security Assessment report but instead may have the need for a lower level of valuation assurance which the Institute and the Lender client recognises as a Restricted Valuation
- 2.2 The Institute reserves Copyright of the Restricted Valuation Residential - Property' pro-forma report. This is deemed necessary to retain the integrity and consistency of the report format. The report format is available through the Institute.
- 2.3 Although the Institute has approved the use of Restricted Valuations in the manner contemplated by this Supporting Memorandum it does not accept any responsibility for the content of any Restricted Valuation.
- 2.4 Any CPV who provides or any Lender client who uses or relies upon a Restricted Valuation agrees to be bound by all of the provisions of this Supporting Memorandum.

3.0 Provision of the 'Restricted Valuation' Service

- 3.1 In providing a Restricted Valuation, a CPV is not required to exceed the terms of the Lender clients' instructions as noted on the Restricted Valuation - Residential Property pro-forma report and as further explained in this Supporting Memorandum.
- 3.2 A Restricted Valuation must only be provided by a CPV who has had recent relevant valuation experience in the locality (within, at a maximum, the past six months or, in rapidly changing market conditions, within the past three months), and has researched that market place for the purpose of valuing similar properties.
- 3.3 Where a CPV is not able to satisfy the requirements of RV: 3.2 the instruction must be declined. In these circumstances the CPV may alternatively advise the lender that the CPV is prepared to undertake a PropertyPRO Residential Valuation and Security Assessment of the Property.

4.0 Restrictions on the Provision and Use of a Restricted Valuation

- 4.1 A Restricted Valuation must only be carried out by CPV for the valuation of existing single residential dwellings, strata or community plan units, vacant single residential sites and hobby farms for mortgage security purposes. A Restricted Valuation must not be used for the valuation of proposed dwellings or extensions/renovations to existing dwellings and must not be used for the valuation of unique residential properties or those falling within upper market levels. A Restricted Valuation must not be provided for a valuation of any other type of property for any purpose.
- 4.2 A Restricted Valuation as defined in this Supporting Memorandum must only be provided on the Restricted Valuation - Residential Property pro-forma report annexed hereto after Part A has been completed (as far as possible) by the Lender client, as the pro-forma constitutes both a letter of instruction and a report format. The Restricted Valuation - Residential Property pro-forma report is copyright by the Australian Property Institute and must not be modified in any way without approval in writing from the Australian Property Institute.

- 4.3 The Institute considers that a Restricted Valuation is not suitable for high percentage lending. A Restricted Valuation undertaken by a CPV must not be used by a Lender client to approve a mortgage loan where the Loan to Current Purchase Price Ratio (if any) exceeds 80%.
- 4.4 A Restricted Valuation must not be used for mortgage insurance purposes.

5.0 Information to be Provided to the CPV

The CPV requires certain information to undertake a Restricted Valuation. The Lender client is required to provide the following minimum information to the CPV:

Essential information:

- full property address (lot number is insufficient unless plan number also supplied).
- number/type of rooms, number of bedrooms and bathrooms,
- estimated living area
- external improvements (eg Swimming pool)
- land area.

Important information:

- title detail / legal description / survey or registered plan.

Provision of both the property address and the title detail / legal description are important to enable the correct property to be identified and confirmed as other normal means of confirmation will not be available to the CPV conducting a Restricted Valuation. Where the Lender client is unable to supply title detail / legal description, the CPV is entitled to assume that the address supplied by the Lender client is correct and to rely upon it. The Lender client acknowledges that where only an address is provided to the CPV, the risk of incorrect identification increases and the Lender client indemnifies the CPV against any such mis-identification.

Should the CPV consider that there is a possibility that a property address has been incorrectly described by the lender, the CPV will notify the Lender client of such in the Restricted Valuation report and will recommend that the Lender client obtains a PropertyPRO Residential Valuation and Security Assessment.

Desirable information:

- Main building type
- Main walls and roof.

6.0 Limitations and Requirements of a Restricted Valuation

6.1 It is important that both CPV and Lender clients are aware of the extent and limitations of a Restricted Valuation provided by the CPV. In utilising this service, the Lender client agrees to waive the requirement for many of the processes that a CPV would undertake in carrying out a full valuation of a property. (An appreciation of extent by which a Restricted Valuation falls short of the valuation methodology required to be employed by a Member in valuing a residential property can be gained by reference to the PropertyPRO Residential Valuation and Security Assessment Supporting Memorandum).

6.2 A Lender client requesting a CPV to carry out a Restricted Valuation does so on the express understanding and agreement that the CPV is instructed not to conduct a comprehensive inspection of the property. The Lender client agrees to accept the Restricted Valuation having regard to the risks inherent in relying upon a valuation which does not have the benefit of a comprehensive inspection.

6.3 The Lender clients requirements for CPVs providing this Restricted Valuation service are set down in point form within the Instruction section of the Restricted Valuation - Residential Property pro-forma report. For the guidance of both Lender clients and CPVs these requirements are elaborated upon below:

- *'any records that you may possess in respect of the property should be checked. This includes registered plans, zoning information and any sales of the property in the past three years'*

This extends only to existing records that are held at the time of instruction in the CPV's office.

- *'the property must be identified at its street frontage'*

Using the address, (and title details/legal description if provided), and any plans the CPV has, identify the property.

- *'an external inspection only of the property is to be conducted'*

The extent of the inspection of the property is to be limited to a point or points at or near its legal frontage(s). The CPV must not enter onto the property. Where this inspection and the information provided to the CPV do not

enable the CPV to gain a reasonable impression of the property, the CPV will be entitled to either increase the market range of the value for the property and/or recommend that a PropertyPRO Residential Valuation and Security Assessment be conducted.

- *'the property is to be photographed and the photo retained on file'*

This should be taken, without entering the property, from a point or points near the property's legal frontage.

- *'any property information supplied above that is known to be incorrect should be corrected, otherwise assume all information supplied to be correct'*

The CPV will not be held responsible if the information provided by the Lender client is incorrect, but where the CPV knows information supplied by the Lender client to be incorrect, the CPV must correct it. There is no obligation on the CPV to supply any missing information.

- *'the condition and quality of what is visible is to be assumed as indicative of the nature and condition of the property'*

If, for example, the visible part of the exterior appears in good condition and of above average quality, the CPV is entitled to assume that the remainder of the exterior and the interior is of the same condition. The Lender client acknowledges that such assumptions will not always be correct, but for the purpose of a Restricted Valuation, the Lender client agrees that the CPV is entitled to make that assumption.

- *'unless stated otherwise, fee simple with vacant possession is to be assumed'*

The CPV is not expected to search the title or to enquire if there are any leases or occupancy rights.

- *'unless ascertained within these limitations or physically obvious, it is to be assumed that there are no easements or encumbrances'*

The CPV is not expected to search the title, but must take into account any title information supplied or easements noted on plans already in the possession of the CPV or which are obvious from the restricted inspection.

- *'recent comparable sales from your records must be reviewed'*

Available sales data held in the CPV's office should be considered.

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In agreeing to undertake a Restricted Valuation the CPV is required, in accordance with RV: 3.2 above, to have recently researched the relevant market place and to be familiar with the most recent sales and market.

direction. The Lender client agrees that it is therefore not necessary for the CPV to carry out additional comparable sales research.

- *'within the above limitations you are to provide (the client) with an indicative market value range for the property.'*

The Lender client acknowledges that the limitations imposed by the Lender client on the CPV in relation to inspection, research, enquiry and other aspects of due valuation process prevent the CPV from carrying out a fully researched valuation assessment of the property. The Lender client also acknowledges that, based upon the limited known information available to the CPV, an indicative market value range is more appropriate than a single valuation figure and the Lender client further acknowledges that the market value range is likely to be sufficiently wide to reflect the above limitations.

- 6.4 Any material relied upon or notes taken should be retained on file by the CPV Member with a copy of the Restricted Valuation report.
- 6.5 All information provided by the Lender client, including instructions, is to be in writing in Part A of the Restricted Valuation - Residential Property pro-forma report.
- 6.6 The Restricted Valuation is to be provided by the CPV to the Lender client in writing in Part B of the Restricted Valuation - Residential Property pro-forma report.

7.0 Indicative Market Value Range

- 7.1 It should be noted that a market valuation is property-specific and provides a single point assessment in accordance with the definition of Market Value as follows:
- *'The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion.'*

- 7.2 A Restricted Valuation is a qualified opinion of value of a property provided in accordance with this Supporting Memorandum in response to a specific instruction by the Lender client not to carry out the usual enquiries and investigations associated with a market valuation.

A Restricted Valuation is:

an indication of the value range that the market value of the property is likely to fall within should a CPV be requested to carry out a fully researched valuation assessment of the property in accordance with the PropertyPRO Residential Valuation and Security Assessment' and the definition of market value in 7.1'.

- 7.3 The value range provided by the CPV should be sufficiently wide to reflect the limitations of the Restricted Valuation process such as, but not limited to, the extent to which the property is visible, the degree to which it can be gauged within the limitations of the Restricted Valuation, the very limited research and enquiry and the limited known information. The greater the level of uncertainty that results from those limitations, the wider the range will likely be.

Where that range is greater than 20% (of the difference measured against the lower figure), the CPV should also recommend that the Lender client obtains a PropertyPRO Residential Valuation and Security Assessment of the property in question. A market value range should still be provided, even if broader than 20%, as it may be adequate for the Lender clients requirements.

It is specifically acknowledged by the Lender client that, based on the limited known information available to the CPV, the CPV will not be able to undertake a Restricted Valuation to the same level of accuracy as a PropertyPRO Residential Valuation and Security Assessment.

- 7.4 If a Restricted Valuation is provided in a market-place where two-tier or multi-tier markets are in existence, the range provided should reflect an informed purchaser's and realistic marketing conditions such as would be available to an individual owner on re-sale.

8.0 Recommending a PropertyPRO Residential Valuation and Security Assessment Report

- 8.1 aware of factors which impact or could impact adversely on the property. Where it is thought this adverse impact could be significant, but can only be established or confirmed by inspection, research and/or enquiry beyond the intended scope of a Restricted Valuation, the CPV should recommend that a PropertyPRO Residential Valuation and Security Assessment report be prepared. The recommendation can be made by ticking the box provided.
- 8.2 Where a recommendation is made for the preparation of such a report, the CPV should also briefly note the main reason for the recommendation.

9.0 Acceptance of Commercial Risks of a Restricted Valuation

- 9.1 The Institute considers that there are inherent risks to a Lender client who relies on a Restricted Valuation but acknowledges that the Lender client has expressed a commercial need for such a valuation to be carried out by CPV Members of the Institute.
- 9.2 A Lender client, in providing its instructions for a Restricted Valuation using the Restricted Valuation - Residential Property pro-forma report, agrees to accept and be bound by the process contained within this Supporting Memorandum.
- 9.3 The Lender client expressly acknowledges and confirms:

- a) in producing the valuation advice contained in a Restricted Valuation the CPV has not carried out the usual range of enquiries that a CPV is required to make by professional practice standards in determining a valuation of property, and that this is at the specific request of the Lender client.
- b) that the Lender client fully understands the risks inherent in relying upon a valuation carried out in such circumstances.

Accordingly, but subject to compliance by the CPV with the requirements of the Restricted Valuation - Residential Property pro-forma report, this Supporting Memorandum and the stated instructions of the Lender client, the Lender client agrees that it will have no cause of action against the CPV whether in contract tort or otherwise by reason only that the Lender client suffered loss or damage by relying upon a Restricted Valuation.

The Lender client further agrees that it will indemnify the CPV against any claim for loss or damage by a third party invited or permitted by the Lender client to rely upon a Restricted Valuation, whether arising in contract tort or otherwise and arising out of or in connection with reliance by that third party on a Restricted Valuation.

Nothing in this clause 9.3 shall affect the liability of the CPV in relation to a Restricted Valuation where the CPV failed to carry out a Restricted Valuation in accordance with the provisions of the Restricted Valuation - Residential Property pro-forma report, this Supporting Memorandum and the stated instructions of the Lender client.

- 9.4 The Lender client will not convey a Restricted Valuation or any part of it to the borrower or other third parties, and will keep it confidential and will use it for its mortgage-related purposes only.