

Mr Eric Ducoulombier
Deputy Head of Unit
DG MARKT – H-3
European Commission
Rue de la Loi 200
B-1049 Brussels

Brussels, 23 November 2005

Dear Mr Ducoulombier,

Green Paper on Mortgage Credit

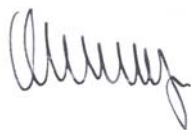
Please find attached the valuation profession's position on the Green Paper on Mortgage Credit.

We believe that this paper has double added value for the Commission:

- It is the work of the only purely European federation of property valuation professionals. As such it pursues European goals and does not set or promote international standards.
- The fact that TEGoVA 's large membership reflects the diversity of the profession has not stopped us from adopting a coherent common position.

We shall be contacting you soon to organise a meeting early in the new year. In the meantime, we are at your disposal for any clarification or further explanation you may require.

Yours sincerely,



Alfons Metzger
Chairman



Wolfgang Kälberer
Member of the Board

Position paper on valuation issues raised by the European Commission's Green Paper on Mortgage Credit in the EU

November 2005

Introduction

The European Group of Valuers' Associations welcomes the opportunity to respond to the valuation-specific issues raised by the Green Paper on Mortgage Credit published on 19 July 2005. Accurate property valuation has correctly been identified by the European Commission services as one of the key criteria to successful cross-border mortgage business and further mortgage markets' integration in Europe.

TEGoVA is a European non profit making Association composed of 40 valuers' Associations from 27 countries representing about 100.000 valuers in Europe. Since the early 80s, TEGoVA has published European Valuation Standards, at present under the 5th edition, referred to as EVS 2003. EVS 2003 provides European Standards on fundamental valuation principles, guidance for interpretation and application of those principles and further assistance in the valuation process. The purpose of EVS is:

- to assist valuers to prepare coherent valuation reports by providing clear guidance
- to promote consistency by the use of standard definitions of value and approaches to valuation
- to provide a quality standard in terms of a validation of recognised qualifications of valuers and best practice as a benchmark for users of valuations
- to deliver transparency on the different national valuation systems and valuation regulations in Europe

Valuation for lending purposes is increasingly recognised as an important business activity for the profession and EVS 2003 is dedicating European Valuation Standard 6 to this activity. Increasing cross-border mortgage lending will always be linked to valuation-specific issues making the need for common valuation principles, high professional standards and best practice in Europe even more crucial.

Property valuation at national and European level

Today, property valuation is still strongly founded on diverging national laws, regulations and custom across Europe. The profession is characterised by diverse national traditions and requirements and does not deliver a homogenous picture at European level.

In some countries, property valuation is not regulated at all, relying on opaque professional practice. In some other States, the valuation of property and definitions of values are extensively regulated through legal provisions or secondary legislation. Furthermore, there are countries where valuation is regulated through professional rules establishing best practice standards on a self-regulatory basis.

At European level, neither property valuation nor the profession of valuer are regulated, although a certain number of EU Directives and Legal Instruments impact on the principles and practice of property valuation in many different areas such as accounting, banking or taxation.

The European Council Directive on the Annual Accounts and Consolidated Accounts of Insurance Undertakings (91/647/EEC) for the first time addressed valuation issues at European level by introducing a specific Market Value definition for property assets. The valuation profession noticed that this definition did not match the Market Value definition provided by TEGoVA and other international professional organisations.

The Consolidated Banking Directive (2000/12 /EC) then replicated the Market Value definition provided by the 91/647/EEC Insurance Undertakings Directive and added further requirements regarding rigorous assessment criteria for property values under certain circumstances.

The forthcoming Capital Requirement Directive for credit institutions transposing the Basel II Accord into European law will provide a quite complete set of regulation for property valuation being carried out for lending purposes, covering definitions of values, further assessment criteria, monitoring and revaluation requirements as well as requirements with respect to the qualification and independence of valuers.

Finally, a European Regulation endorsing International Accounting Standards introduced Fair Value valuation of property assets for accounting purposes (IAS 40 / IAS 16), raising issues of interpretation and implementation of this approach at pan-European level, especially in relation to Market Value valuations of property.

In short, TEGoVA is concerned about the consistency of European regulation impacting property valuation, as existing provisions are not founded on a common understanding of valuation approaches or processes. Definitions of values diverge and the absence of a homogenous set of rules at European level is contributing to substantial incoherencies, thus weakening the development and reliability of cross-border valuation activities.

The European Commission's Green Paper on Mortgage Credit

TEGoVA can confirm that valuation of property is central to a mortgage credit transaction and that lenders must have full confidence in the valuation process, the reliability of the property value and the qualifications of the valuer. This applies even more to cross-border valuation activities where a lack of trust can be a significant barrier to foreign market entry.

TEGoVA believes that before responding to the questions raised by the Green Paper, it is useful to agree on a common understanding regarding the language used.

The complexity of property valuation involves wide ranging issues starting from basic valuation principles, definitions, competence and educational requirements, including more specific areas such as the determination of valuation purposes or the classification of property types and finally covering very technical items like valuation methodology, i.e. the rationale of income, comparison, cost or depreciated cash flow methods and their consistent application to the property to be valued.

➤ **What are the merits of a single EU standard, for both valuation processes and valuers ?**

TEGoVA would like to emphasise that transparency of foreign markets, access to information, understanding of local valuation practice or traditions and trust in the qualifications of valuers are important prerequisites for the conduct of consistent cross-border valuation activities and further mortgage market integration.

Thus, major obstacles to cross-border property valuation are opacity of markets or market segments and missing information in other countries. Valuation fundamentally relies on comparison of data, of property characteristics and location-specific criteria. The comparison process has to be based on reliable transaction data and it is the access to those transaction data of foreign markets that is key to the assessment of coherent property values abroad. Very often, a particular piece of property or market-specific information is not available on a cross-border basis.

Furthermore, confidence in foreign property valuations is widely based on high qualification standards and educational skills of the valuer. From a cross-border perspective, there is only low visibility or certainty about the qualifications of the local valuer and it is difficult to gauge whether the required qualifications exist, whether the valuer has sufficient market knowledge and is qualified for the particular property to be valued and the requested valuation purpose or service.

The components of the property valuation process outlined above are variously suitable to standardisation at European level. Standardisation should primarily address basic valuation principles and be directed at enhancing comparability of information and technical data.

Standardisation of definitions would considerably facilitate cross-border valuations. A common definition of rental area, net or gross surface, construction and property management cost etc. would ensure consistency for property valuations at pan-European level. The same applies to the definition of values and classification of property types.

European education and qualification standards for valuers would also increase the reliability of cross-border valuations. Beside the certification of valuers, professional organisations already provide a large number of appropriate educational tools at national level.

European standards could furthermore set requirements regarding conflicts of interest, corporate governance or ethics, conditions of engagement or form and content of a valuation report.

- **What are the merits of Commission action to ensure mutual recognition of national valuation standards ?**

1. Valuation Standards

In order to ensure consistency and quality of cross border property valuations in Europe, TEGoVA recommends that the European Commission take a truly European approach and endorse European Valuations Standards as drafted under EVS 2003 through a Commission Recommendation. Endorsement does appear at present as an appropriate measure to address the obstacles and concerns defined by the Green Paper as opposed to regulation which would probably not produce added value for the needs of the profession and the credit industry as users of cross border valuation services.

2. Valuation Methodology

In contrast, valuation methodology does not require EU intervention.

While valuation standards are basically driven by the aim to ensure best practice and consistency and accuracy of property valuations, methodology provides the technical tool for the calculation of property value and is fundamentally based on economics of national markets and property. Valuation methodology not only reflects national, regional or even local market characteristics, but also legal and tax specificities and is therefore less suitable to European standardisation.

Furthermore, we are now witnessing an organic convergence of valuation methods at European level following similar principles. There are three basic methods for valuing property, the comparative method, the cost method and the income method.











The comparative method produces a property value by comparing the property with other, similar properties where there is evidence of appropriate market transactions. This method is primarily applied to owner-occupied residential property.










The cost approach obtains the value of the property from its gross replacement cost which is then depreciated for obsolescence.

Finally, *the income method* is used to calculate the capital value of a property by capitalising its rental income or the income generated by the business that is carried out on the property.

Thus, the organic convergence of national valuation methodologies is ensuring that the valuation of the property reflects the local real estate market and complies with local legal and tax systems and market participants' behaviour.

Members of TEGoVA

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|---|---|
|  | <p>Albania</p> <ul style="list-style-type: none"> • SHOQERIA E VLERESUESVE TE PASURIVE TE PALUAJTSHME (SVP) The Society of Real Estate Valuers |
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|  | <p>United States</p> <ul style="list-style-type: none"> • APPRAISAL INSTITUTE |
|  | |

European Valuation Standards (EVS)

"The Blue Book"

English



Title: **European Valuation Standards 2003**

Author: The European Group of Valuers' Associations

Date of publication: April 2003

ISBN number: 0 7282 0414

Price: £ 75.00 (including free on-line access)

Publisher: The Estates Gazette

French (NEW)



Title: **Les Normes d'Expertise Immobilière en Europe 2005**

Author: The European Group of Valuers' Associations

Date of publication: October 2005

ISBN number: 2-525332

Price: € 37

Publisher: TEGoVA France

German



Title: **Europäische Bewertungsstandards 2003**

Author: The European Group of Valuers' Associations

Date of publication: October 2003

ISBN number: 0 7282 0414 2

Price: € 39

Publisher: VÖB-Service GmbH

Hungarian



Title: **Európai Értékelési Szabványok 2003**

Author: The European Group of Valuers' Associations

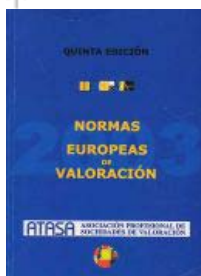
Date of publication: November 2003

ISBN number: 963 212 609 2

Price: HUF 4.800

Publishers: Hungarian Real Estate Association (HREA) and Füti Omega Co.

Spanish



Title: **Normas Europeas de Valoración 2003**

Author: The European Group of Valuers' Associations

Date of publication: October 2003

ISBN number: 84-607-9022-3

Price: € 35

Publisher: Asociación Profesional de Sociedades de Valoración (ATASA)

