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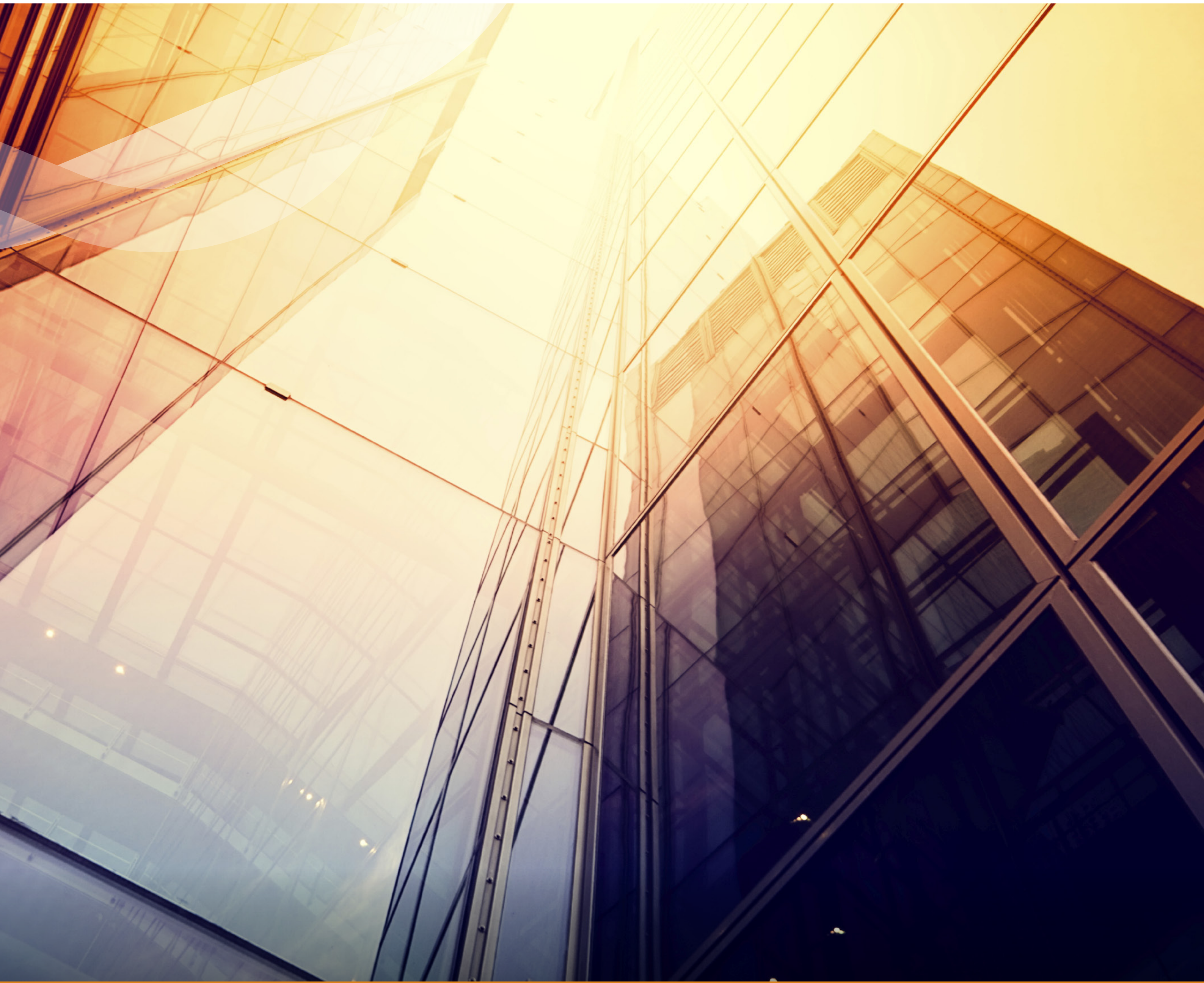

EMF-ECBC **2017** | STUDY ON THE VALUATION OF PROPERTY FOR LENDING PURPOSES

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DISCLAIMER

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RELIABILITY OF PROPERTY VALUATIONS THROUGH TRANSPARENCY, ACCURACY & CONSISTENCY

In the five years since the publication of the last edition of the EMF-ECBC Study on the Valuation of Property for Lending Purposes, Europe's financial and mortgage markets have experienced and navigated through a challenging economic climate and extended (and ongoing) period of regulatory change. The events which followed the financial crisis shook the European Union (EU), its Member States' economies and its citizens' faith in financial institutions. What followed in Brussels was a wide-ranging and comprehensive series of legislative initiatives designed to restore financial stability and rebuild confidence in markets. These new rules have significant implications not only for mortgage and covered bond markets, but also the valuation of property for lending purposes, which plays a fundamental role in the mortgage lending and funding value chain and is crucial to securing confidence in European mortgage markets on the part of consumers, lenders and investors.

In the first instance, accurate and transparent property valuation is essential to the mortgage lending business, as it promotes confidence in the collateral system. In this respect, property valuation represents one of the major building blocks of the mortgage system. The lender requires certainty that the asset being taken as a guarantee for a housing loan is of a sufficient value to cover the outstanding debt should the loan default. This confidence in the property value is one of the elements which make mortgage debt a low risk, inexpensive way of providing housing finance and which in turn makes homeownership a reality for many throughout Europe.

From a lender perspective, property valuation is therefore a fundamental element of managing the risks associated with mortgage lending and it plays a key role in the calculation of capital requirements related to credit risk. By delivering the 'V' in the LTV (loan to value) ratio, which underpins the Basel Committee on Banking Supervision's Standardised Approach for Credit Risk (which is implemented in the EU by way of the Capital Requirements Regulation (CRR)), property valuation is central to efficient and effective capital measurement and planning.

Finally, the performance of Europe's Covered Bond markets is primarily driven by the quality of the underlying asset. One of the key elements defining credit quality is the asset's original valuation when the mortgage was advanced and then subsequent valuations monitoring the value of the underlying asset.

The recent economic crisis underlined the importance of accuracy, transparency and consistency, also therefore in relation to property valuation, for the safety and security of the EU's mortgage markets. Only if property valuation processes respond to these requirements in terms of methodologies and techniques, valuer independence and professional qualifications, will mortgage lenders be able to accurately assess their credit risk and appropriately calculate their capital requirements, and will investors be willing to purchase covered bonds. The subsequent section of this Study will describe the EU regulatory framework specific to property valuation and also address other relevant issues such as valuer independence and the use of automated technology in the field.

With a view to endorsing and promoting the highest standards in property valuation, the EMF's Valuation Committee has regularly updated and revised its Study on the Valuation of Property for Lending Purposes, which was first published in 1998 and most recently in 2012, with a view to providing a deeper understanding of the context and technicalities of valuation practices in the EU.

The result of the 2017 update of the Study is a comprehensive commentary on valuation practices in EU Member States and, for the first time, a number of countries beyond the EU's borders i.e. Montenegro, Serbia, Russia and Ukraine. The national chapters focus on the valuation itself (regulation/self-regulation, bases and methodology, valuation report, Automated Valuation Models (AVMs)), the valuer (regulation/ self-regulation, qualifications, use of title, indemnity insurance), valuation in the context of the calculation of capital requirements and valuation of the covered bond cover pool, where relevant.

Interestingly, as indicated above, the 2017 Study includes a new article on the regulatory landscape in the EU specific to property valuation (together with the relevant legal texts in Annex I), an updated set of EMF Guidelines on the Independence of the Valuer and, finally, a short summary of a survey conducted by the European AVM Alliance (EAA) and the EMF-ECBC on the use of AVMs in the EU, complemented by some additional information on recent developments in this area. As was the case in the previous edition of the Study, the EMF-ECBC's Profile on Risk Related Criteria for Valuations is included in Annex II. To recall, the Profile recommends that certain risk related criteria should be used when preparing and interpreting property valuations for lending purposes, with a view to enhancing the quality of valuations by covering what could be of specific interest to mortgage lenders.

Finally, we would like to take this opportunity to thank not only the authors of the national chapters, but also Silvia Cappelli, ASSOVIB, and Raimondo Lucariello, Italian Banking Association, for providing invaluable support in editing the Study.

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PROPERTY VALUATION WITHIN THE EU REGULATORY LANDSCAPE

With its ability to assess the worth of an asset, valuation and in particular property valuation, takes on an essential role in society as it provides the point of reference for business transactions, investments, acquisitions, budgeting, tax liabilities etc. impacting the prospect of homeownership and the business environment. While every Member State in the European Union (EU) has its own system for providing credit for lending purposes for both residential and commercial properties, reflecting the different countries' history and development, this article provides an introduction to those requirements which set out the regulatory landscape surrounding property valuation in the EU. In doing so, this article highlights how central property valuation is for the processes of both mortgage lending and covered bond funding.

The most important EU legislation with relevance for property valuation include the Mortgage Credit Directive (MCD)[1], which applies to all loans made to consumers for the purpose of buying residential property, and the Capital Requirement Regulation[2] (CRR), which sets prudential requirements for banks, requiring them to keep sufficient liquidity and capital reserves. In addition, the future EU Covered Bond Legislative Framework, which at the time of writing is currently under discussion, may potentially also include recommendations on Loan-To-Value (LTV) measurement and frequency of monitoring and revaluation as was proposed in the 2016 EBA Report on covered bond framework convergence in the EU. Finally, the European Central Bank (ECB) has issued a guidance to banks on non-performing loans which sets out supervisory expectations and provides best guidance when valuing immovable property held as collateral for NPLs.

Here below readers will find an introduction to the EU regulatory landscape which sets the scene for property valuation within the EU.

All referenced articles in the text below are listed in their exact wording in Annex I.

Mortgage Credit Directive

The MCD from 2014 is intended as a first step towards the creation of an EU-wide mortgage credit market with a high-level of consumer protection and, in addition to rules around consumer information and creditworthiness assessment, includes common business conduct principles and quality standards, also addressing property valuation, for all EU lenders.

Of particular relevance to the present Study is Article 19 which focuses specifically on property valuation and contains minimum requirements regarding valuation standards and professional qualifications. The article states that Member States must ensure that reliable valuation standards are implemented in their territories and that these standards are used by creditors or a third party carrying out valuations. Recital 26 adds that in order to be considered "reliable", the standards must take into account internationally recognised valuation standards, in particular those developed by the International Valuation Standards Committee (IVSC), the European Group of Valuers' Associations (TEGoVA) or the Royal Institution of Chartered Surveyors (RICS). The provisions of the Directive relating to property valuation may also be complied with for example through law or self-regulation. Article 19 also puts emphasis on valuer independence, requiring Member States to ensure that both internal and external appraisers conducting property valuations are professionally competent and sufficiently independent from the credit underwriting process, in order to provide an impartial and objective valuation.

Section one and two of the questionnaire which underpins the country chapters specifically address the transposition of the above MCD provisions into Members States own frameworks. For further information about the question of independence and internal and external valuers, please refer to the introductory article on the '2017 EMF-ECBC Guidelines on the Independence of Valuers'.

Capital Requirement Regulation

The 2013 CRR, which applies to credit institutions and investment firms, is aimed at decreasing the likelihood of bank insolvency, reflecting the Basel III framework on capital measurement and capital standards, by setting out comprehensive rules for calculating capital requirements for, among others, exposures secured by real estate including mortgages, and for reporting and general obligations regarding liquidity.

Article 4 of the CRR defines the valuation basis "mortgage lending value" and "market value" for the first time in an EU framework, and the article therefore plays a central role in the practice of valuations for lending purposes.

Of particular relevance to the present Study are furthermore Articles 124, 125 and 126 which specify the risk weights for exposures to mortgages secured by residential and commercial properties for the calculation of capital requirements under the Standardised Approach. These articles assign a 35% risk weight to residential mortgage exposures and a 50% risk weight to commercial mortgage exposures, although competent authorities may increase the risk weights or apply stricter criteria on the basis of financial stability considerations, in consultation with the EBA. These "preferential" risk weights may only be assigned to the part of the loan which does not exceed 80% of the market or mortgage lending value in the case of residential property and to the part of the loan which does not exceed 60% of the mortgage lending value or 50% of the market value in the case of commercial property.

Valuation is furthermore of fundamental importance in the context of the calculation of capital requirements for exposures in the form of covered bonds. Article 129 stipulates the criteria which covered bonds, and the loans acting as collateral in terms of maximum LTVs, must meet in order for covered bonds to be eligible for the preferential treatment which this asset class enjoys in the CRR.[3]

Article 208 stipulates further requirements for property valuation, which must be met in order for immovable property to qualify as eligible collateral. Specifically, institutions must as a minimum monitor values once every year for commercial property and once every three years for residential property. Should markets undergo significant fluctuations, it is also required that more frequent monitoring of property values is carried out. Further specifications note that statistical methods may be used to monitor the value, but that for loans exceeding EUR 3 million or

[1] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010.
[2] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
[3] To qualify for the preferential treatment, covered bonds have to in addition to the CRR Article 129 also fulfil the requirements of Article 54 (d) of the EU UCITS Directive.

5 % of the own funds of an institution, a property valuation must be reviewed by a valuer, who possesses the necessary qualifications and is independent from the credit decision process, and at least every three years.

The importance of valuer independence is reiterated in Article 229, which addresses valuation principles for immovable property collateral under the Internal Ratings Based (IRB) Approach. Article 229 furthermore states that value of property collateral must be documented in a transparent and clear manner, by an independent valuer at or at less than the market value, or estimated using the mortgage lending value reduced as appropriate to reflect the results of the monitoring required under Article 208.

In this context, specific rules on the valuation of properties collateralising non-performing loans (NPL) were issued by the ECB in 2017 through "Guidance to banks on Non-Performing Loans"[4] applying to all significant credit institutions supervised directly under the Single Supervisory Mechanism (SSM). Chapter 7 on "Collateral valuation for immovable property" provides best guidance regarding the policies, procedures and disclosures which banks should adopt when valuing immovable property held as collateral for NPLs. More specifically, the guidance sets out how to apply Articles 208 and 229 CRR to NPLs and outlines expectations around general governance (covering aspects of policies, procedures, monitoring and controls as well as expectations with regard to valuers), frequency of valuations, valuation methodology and the valuation of foreclosed assets. It further states that, under the SSM, banks are expected to adhere to the principles presented within Chapter 7 and incorporate these principles into their policies, procedures and controls.

Section three and four of the questionnaire which underpins the country chapters specifically addresses valuation questions in relation to the CRR framework in terms of capital requirements, eligibility of collateral and the covered bond cover pool.

Forthcoming EU Covered Bond Legislative Framework

In December 2016, the European Banking Authority (EBA) published a Report suggesting potential areas of convergence for the covered bond frameworks in the EU. The objective of the recommendations is to further strengthen covered bonds across the EU and ensure that only those financial instruments that comply with certain harmonised structural, credit risk and prudential standards can be recognised as 'covered bonds' and be subject to special regulatory and capital treatment as provided in the CRR and other European legal frameworks. Prior to this, the European Commission had published a comprehensive consultation on the matter. The EBA report proposes the following three-step approach to possible harmonisation of the various covered bond frameworks going forward:

- Step I: EU Covered Bonds Directive which would aim to provide a definition of the covered bond product;
- Step II: Amendments to the Capital Requirements Regulation (CRR) which presents targeted amendments aiming at enhancing the conditions for access to preferential risk-weight treatment of covered bonds, and
- Step III: Voluntary Convergence which outlines ways in which non-binding instruments stimulate convergence on a voluntary basis between national frameworks in specific areas.

Of particular interest to this Study is Step III, which includes a section on loan-to-value (LTV) measurement and frequency of monitoring and revaluation. While the CRR sets out rules on the criteria and frequency of monitoring for property values and property valuation as mentioned above, the EBA recommends that these rules should be expanded, subject to voluntary convergence, as follows:

- Where cover asset eligibility is based on loan-to-market value limits, the value of the property securing a particular loan—and the corresponding regulatory LTV limit determining the contribution of that loan to the coverage requirement—are monitored and updated (e.g. at least via an indexation or other statistical method) at least on a yearly basis for both residential and commercial properties, and more frequently where either the management of the covered bond programme or the cover pool monitor or the competent authority deem appropriate;
- Where cover asset eligibility is based on loan-to-mortgage lending value limits, the general level of market prices for the relevant real estate market is to be monitored and the basis of valuation of property collateralising individual loans is to be reviewed (as a minimum) when a general reduction in market prices suggests an impairment of the mortgage lending value, or if the affected loan becomes delinquent;
- Revaluation of the properties securing the loans should be based on transparent valuation rules and be carried out by an agent who is independent from the credit granting process. As a minimum, the valuation process should be compatible with either the conditions laid down in the first or the second subparagraph of Article 229(1) of the CRR;
- When deciding upon the frequency of revaluation, qualitative aspects such as robustness of the revaluation process should also be taken into account.

While Step III represents voluntary convergence to further harmonisation, the EBA report also notes that on a long-term basis greater harmonisation could be proposed in such areas.

In June 2017, the European Commission published an assessment report on the initiative on an integrated covered bond framework, noting the likelihood that the European Commission will welcome further harmonisation by proceeding with the EBA's proposal for a covered bond directive. How effect, if any, will be given to the EBA recommendations regarding valuation will remain to be seen.

Conclusion

As this regulatory introduction illustrates, property valuation, by determining the 'V' in the LTV ratio, is at the heart of the calculation of capital requirements for mortgage exposures, and as such is crucial to both mortgage lending and the issuing of covered bonds impacting all stakeholders in the value chain, including homeowners, lenders, issuers and investors etc. The following country sections will contextualise how Member States' different systems facilitate property valuation for lending purposes within the regulatory landscape described above, while taking into consideration national circumstances in relation to diverse markets and business models.

[4] ECB "Guidance to banks on Non-Performing Loans" is available here: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf.

EMF-ECBC 2017 GUIDELINES ON THE INDEPENDENCE OF VALUERS

Introduction

Valuer independence in the context of the valuation of property for lending or capital requirement calculation purposes is referred to in Article 19(2) of the Mortgage Credit Directive (MCD) and Article 208(3)(b) of the Capital Requirements Regulation (CRR)[1], where in both emphasis is placed on independence of the valuer **from the credit underwriting or decision process**. The following EMF-ECBC guidelines are intended to elaborate on these basic indications in EU legislation with a view to developing and promoting a general understanding of the principle of valuer independence.

1. Definition of an Independent Valuer

With the EU legislative references in mind, valuer independence is understood to mean an individual valuer or a valuation entity coordinating individual valuers who is and appears to be free of any undue influence from any person or entity which has an interest in the final value and the content of the valuation report.

Independent valuers can be individual professionals working on their own or valuation entities coordinating individual valuers:

- **Valuation entities** coordinating individual valuers can be external to their main customers, mortgage lenders, or be part of a lending institution. Valuation entities may be single purpose companies or belong to broader organisations, when this is permitted by national laws.
- An **individual valuer** may be part of a credit institution (in which case they exercise their valuation activity exclusively for their employer), freelance or work for a valuation entity.

Many different possibilities and business approaches therefore exist in the market for valuers, although they will always respect well-established high level European and international principles and standards mainly in relation to independent professional behaviour (regardless of whether the valuer is internal or external to the credit institution), absence of conflict of interest and educational and/or professional requirements.

EU Member States either approach the regulation of valuers through stringent regulations that ensure a strict enforcement of these principles or through self-regulation (see the individual country chapters in this Study for more details in this respect). In principle, a regulatory framework is not necessary to ensure professional and independent behaviour.

2. External vs. Internal Valuers

External valuers: An individual valuer is considered external to one lender when his/her professional activity as a valuer cannot be influenced by the lender due to another business and/or personal relationship.

A valuation company is considered external to a lender when the lender has no substantial economic interest in the valuation company, which would enable the lender to exert an influence on this company. The economic interest may be in the form of a substantial portion of the company's shares or a significant proportion of its business.

Internal valuers: All other valuers, for the sake of control measures, should be considered as being internal to the lender. In the past, a number of constituencies made the mistake of equating the concept of independence with being external to the lender. However, in October 2014, the EBA provided clarification in this area in a response to a specific question on the issue of being both an employee of and valuer for a lender:

"In accordance with Article 208(3)(b) of Regulation (EU) No 575/2013 (CRR), the review of an immovable property collateral has to be carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. ***As long as an employee of the bank meets all the aforementioned conditions, he/she can be considered as an independent valuer for the purposes of Article 229(1).****"*

3. Measures to Ensure Valuers' Independence

- ***General EU legislative Context***

As indicated earlier, EU legislation (MCD & CRR) requires – and it is in the best interest of all stakeholders – that the valuation of property for lending purposes is conducted in a professional way, according to European and International Valuation Standards, separately from the process of credit underwriting and avoiding conflicts of interest. Recently, comprehensive (non-compulsory) guidance to banks was issued by the European Central Bank (ECB) on non-performing loans (NPL). The ECB defines independence in this context as follows: *"all appraisers and their first-grade relatives, both internal and external, meet the requirements of independence as follows:*

- *appraiser is not involved in the loan processing, loan decision and credit underwriting process;*
- *appraiser is not guided or influenced by the debtor's creditworthiness;*
- *appraiser does not have an actual or potential, current or prospective conflict of*
- *interest regarding the result of the valuation;*
- *appraiser does not have an interest in the property;*
- *appraiser is not a connected person to either the buyer or the seller of the property;*
- *appraiser provides an impartial, clear, transparent and objective valuation report;*
- *appraiser should not receive a fee linked to the result of the valuation."*

- ***External Valuers***

Conflicts of Interest:

In some Member States, it is compulsory or strongly advised that valuers are members of professional bodies with clearly established membership rules with respect to conflicts of interest between their valuation activities and other occupations (e.g. real estate intermediation, relation with buyer or seller etc.). These professional valuation bodies should be able to supervise and, if necessary, impose penalties in the event of non-compliance with rules. In countries where there are such bodies, lenders, in

[1] For an overview of the EU regulatory framework relating to the independence of valuers please refer to the introduction article on the "EU Regulatory Landscape" and Annex I which introduces the relevant legal articles and where to find them.

principle, should use the services of external valuers that are members of these bodies. In those countries where no such bodies exist or the profession is not regulated, lenders should ensure that external valuers who carry out valuations for them have strict internal rules to avoid conflicts of interest; it should be possible to supervise compliance. One clear rule that should exist in all cases is that the valuer who carries out valuations should have no real estate intermediation responsibilities nor should he/she directly or indirectly benefit economically or otherwise from this business.

Commercial Influence:

Lenders should establish internal rules so that valuers are protected from influence from lenders' internal commercial units or from units that have an interest in the real estate transaction. Ideally, a bank should have operational processes in place dealing with approving external valuers. These processes should be managed in an appropriate way by the lender, for example within the risk management unit. Lenders' internal audit units should be responsible for uncovering eventual undue influence on valuers. For a number of lenders, the responsibility for validating all valuations lays with their risk management units.

- ***Internal valuers:***

Valuation companies, which are part of a lending group or which, as a result of shareholding or revenue dependence, have a direct link with a lending entity should establish internal guidance rules to be applied when performing valuations for that lending entity. These guidance rules should, at least, consist of internal codes of conduct, which establish incompatibility rules when necessary. Supervisory authorities should ensure that the lending entity frequently monitors the existence of and compliance with the code of conduct. These rules/codes of conduct should be in place both for valuations performed by internal valuation companies or by valuation services of the lending entity (individual valuers).

As a general rule, lenders' internal valuation activity (carried out by companies or individual valuers), including the selection and supervision of individual internal valuers, should be the responsibility of their risk management units. It is of paramount importance that lenders which use the internal valuation approach ensure that internal valuers are protected from influence from commercial units/officers. Routine quality control of internal and external valuations should be ensured according to the individual policies of valuation companies and lenders. More specifically, and in line with the MCD and CRR, lenders must ensure that internal valuers are independent and separated from the credit assessment, decision and underwriting process.

Internal valuation professionals' remuneration and promotion should not be linked to the commercial objectives of the mortgage business.

The existence of and compliance with these internal rules and internal reporting lines should be monitored by the supervisory authorities.

Conclusion

Quality valuations are of paramount importance for sound mortgage lending activity and, as a result, for the confidence of covered bond and MBS investors. Ensuring an independent performance by the valuer is essential to achieve a quality valuation. It is the responsibility of lenders to have adequate mechanisms in place to ensure that valuers are well protected from undue influence from commercial units and from the participants in the transaction. Finally, independent valuers can be either internal or external to the lender.

AUTOMATED VALUATION MODELS (AVMs)

Automated Valuation Models (AVMs), which are statistical valuation solutions that provide an estimate of value of any specified property using sophisticated modelling techniques in an automated manner and typically including a comparables-based approach, have spread throughout Europe in recent years and are consequently the subject of increasing attention. In light of this, it is of interest to this Study to summarise the findings of the comprehensive joint paper prepared by the European Mortgage Federation (EMF) and the European AVM Alliance[2] (EAA) to provide an overview of the key applications and features of AVMs and of the state of the industry across Europe. Where relevant, these findings have been complemented by recent developments.

A **shift in the use of AVMs** can be pinpointed following the 2008 global financial crisis when an increase in the use AVMs was observed in several European counties, albeit for different purposes. In Germany, for example, the increase was due to cost pressure and rationalisation of processes within the banking industry. In Norway, the motivation for increasing the use of AVMs was a growing need for transparency and better risk management. Spain, UK and Denmark also reported a shift in the use of AVMs however for multiple purpose.

Looking at the market now, **portfolio valuation** is the primary use/application of AVMs across a wide range of jurisdictions in Europe with some countries employing AVMs to this end to a wider extent than others, these being Denmark, the Netherlands, Norway, Spain, Sweden, Switzerland and the UK, compared to Germany, Greece, Portugal, Romania and Italy. Portfolio valuations are typically carried out for capital requirements purposes[3] as is the case for Denmark, Germany, Greece, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the UK, and also for covered bond and securitisation transactions, investment property funds and asset management, accounting and other purposes. In Denmark, Germany, Italy, the Netherlands, Norway, Romania, Sweden, Switzerland and the UK, they are, in addition, used for risk management purposes. In Germany, Italy the Netherlands, Sweden, Switzerland, Spain and the UK they are also employed in the context of property portfolio transactions.

AVMs are also used for **purposes other than portfolio valuation** depending on the country. For example, AVMs are used at origination for property purchase to varying extents in Denmark, Germany, the Netherlands, Norway, Switzerland and the UK. This use may be subject to certain conditions or may be valuer-supervised/assisted, depending on the country. Furthermore, in these countries and Sweden, AVMs are also used for the underwriting of non-purchase mortgage loan products, e.g. remortgaging and re-pricing of mortgage loans. AVMs are also widely used as a quality control tool in the mortgage origination process, in the countries mentioned above as well as in Italy, Portugal and Spain. In some countries, the use of AVMs at origination is obstructed by the low level of market transparency, by the variety of real estate or by regulation/self-regulation requiring the involvement of a valuer for document analysis and for physical inspection of the property.

In the Netherlands, Norway, Portugal, Sweden and the UK, AVMs are reportedly also used in the areas of taxation and arrears management, for example. They are also employed by mortgage brokers, estate agents and/or consumers for various purposes in Germany, Norway, Sweden, Switzerland, Spain and the UK.

With the use of AVMs growing across European jurisdictions, the **existence and nature of rules and/or guidance in national legislation** in this area is very relevant. In Denmark, legislative rules/guidance exist on the use of AVMs, specifically in relation to mortgage origination and monitoring; in Germany, there are no strict rules in place for portfolio valuation and quality control, but there are rules on the use of AVMs at origination which ensure that AVMs comply with specific requirements for valuation reports. Standards for bank valuations, which also provide general indications on the use of AVMs, have been issued by the valuers' association, ANEVAR, in Romania, while in the Netherlands AVMs have been made compulsory by the government for every government guaranteed mortgage loan application. Rules/guidance have also been issued in Switzerland. In Spain, professional standards on the characteristics, reliability and use of AVM models and algorithms have been issued by the AEV, the association of valuation companies in the country. The Bank of Spain is expected to shortly issue guidance notes on the applicability of AVMs for regulatory purposes.

In contrast, at the time of writing, no specific rules/guidance on the use of AVMs exist in Greece, Italy, Norway, Portugal, Sweden and the UK. In this context, it is worth adding that internal guidelines/procedures within banks and/or professional associations on the use of AVMs, for portfolio valuation and/or for determining the value of a property, exist in Denmark, Germany, Greece, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the UK.

From an EU banking supervisory perspective, the most prominent reference to AVMs is provided by Art. 208 par. 3 of the Capital Requirement Regulation (CRR) stipulating that institutions may use statistical methods to monitor the value of the immovable property and to identify immovable property that needs revaluation. In practice, statistical methods frequently materialise in AVMs.

In terms of the most recent regulatory development which has occurred since the EMF/EAA Survey was conducted, in March 2017, the European Central Bank (ECB) issued Guidance to banks on Non-Performing Loans[4]. Although these do not specifically reference AVMs they nevertheless include a section on indexed valuations, which impose strict rules around and limit the use of "automated processes" in the valuation of NPL assets, particularly by providing a threshold above which valuations derived from automated processes (and indices) may not be used. For further information on the EBC guidance, please refer to the introductory article on the EU Regulatory landscape and Annex I.

As this article describes, the use of AVMs has increased in terms of application and geography across European countries, particularly during the last decade. While it is difficult to predict exactly what the future evolution of AVM use will look like, there is widespread agreement that the use of AVMs, as described above, is likely to further increase into the future.

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[1] This introductory article is based on the EMF/EAA joint paper on the use of Automated Valuation Models in Europe from May 2016 (available here).
[2] In line with Article 208 CRR, which allows for the use of statistical methods to monitor values.
[3] ECB "Guidance to banks on Non-Performing Loans" is available here: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf.

This country section aims to provide a comprehensive commentary on the valuation practices in 17 Member States and 4 non-EU countries with the aim of providing insight into valuation practices in the EU and countries surrounding the EU.

The 2017 country questionnaire is divided into the following four sections:

I – THE VALUATION: This section aims to provide an overview of the frameworks/practices related to valuation standards, valuation bases and methodologies, the form and content of valuation reports and the use of AVMs relative to the valuation of residential and commercial property in the different Member States of the European Union (EU) and countries outside the EU.

II – THE VALUER: This section aims to provide an overview of the frameworks/practices related to the valuer in the different EU Member States and non-EU countries.

III – VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL: This section aims to provide an overview of the important role of property valuation in relation to the calculation of capital requirements and specifically, in this context, the eligibility of collateral for the preferential risk weights for real estate for EU Member States (see Articles 124-126, 208 & 229(1) CRR), and (eligible) real estate collateral for non-EU countries.

IV – VALUATION OF THE COVERED BOND COVER POOL: This section aims to provide an overview of the LTV requirements specific to the mortgage covered bond cover pool in the different EU Member States (see Articles 129(3), 208 & 229 (1) CRR) and non-EU countries. For countries, which do not have a covered bond framework, this section is not relevant.

Belgium

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I. THE VALUATION

GENERAL REMARK: In Belgium, in most cases, property valuation is determined by way of a calculation made by the lender on the basis of the value mentioned in the purchase contract or on the basis of external elements.

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
At this moment, there is still no Royal Decree on this matter.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
There is no specific legal framework

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
No.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential
- Commercial

Property valuation is usually carried out based on calculations made by the lender using external information such as a sales contract, a tender document of the architect, etc. All lenders use their own calculation methods. Property valuation by an internal or external valuer is less common.

b) Based on what definition? Please provide the definition and reference to where it can be located.
Not applicable

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Please refer to 1.2 (a).

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
Different methods are commonly used, such as calculation of free sale retail value, forced sale retail value, etc.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
In most cases, a property valuation is carried out for internal use by the lender. As noted, said valuation is commonly carried out based on a calculation using external factors. Only in a small number of cases is an internal or external estimation made and submitted to the consumer by way of a valuation report (to be paid for). There are for the moment no minimum requirements in terms of the form and content of this valuation report provided by law. However, all lenders use their own internal minimum standards.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
All lenders use their own internal minimum standards.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
In this case as well, all lenders use their own internal minimum standards. Slight differences may occur depending on the product, e.g. the letting of the immovable property (buy-to-let).

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
There are no specific rules/guidance on the use of AVMs

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are especially used for portfolio valuation and revaluation of immovable property (cfr. art. 208 §3 CCR stating that "institutions monitor the value of the property on a frequent basis and at a minimum once every year for commercial immovable property and once every three years for residential real estate.")

c) Do you foresee an increase in the future use of AVMs?
It can be assumed that in the future the use of AVMs might increase.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
No answer provided.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
None.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
Article VII.133, §3 of the Belgian "Code of Economic Law" (Code de droit économique) reads as follows:
"§ 3. For the valuation of a residential property, the lender, in the case where a property valuation is required, may only instruct internal and external valuers who are professionally competent and sufficiently independent from the credit granting process to be able to provide an impartial and objective property valuation. Property valuers are subject, as applicable, to the legal requirements relative to their profession. The lender must document the valuation report in a durable medium. The King may determine the professions able to perform the property valuations described in the first paragraph. He can furthermore fix the criteria which property valuers must comply with. For the valuation of residential properties which will serve as a mortgage guarantee, the lender must ensure that the legal requirements are applied where an internal valuer is instructed or take reasonable steps to ensure that those requirements are applied where a valuation is conducted by a third party".

At the time of the drafting of this Study, there is still no Royal Decree on this matter.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Existing European regulation has to be taken into account, for instance in the Capital Requirements Regulation (CRR) (art. 208, §3 CRR: "[…] review is carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation". The European Banking Authority (EBA) also gave some indications: "In accordance with Article 208(3)(b) of Regulation (EU) No 575/2013 (CRR), the review of an immovable property collateral has to be carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. As long as an employee of the bank meets all the aforementioned conditions, he/she can be considered as an independent valuer for the purposes of Article 229(1)."

In practice, this criterion of independency from the credit decision process is met by the credit providers. Sufficient experience pertaining to estimations, combined with training (diplomas) and further training when applicable, is generally required. Only the law of 11.05.2003 on the protection of the title and profession of expert land surveyor, who may act as an external estimator, provides a number of minimal requirements regarding diplomas or experience.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
There has been no specific transposition of this provision.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Sufficient independence is ensured by a total disconnect from the lending process. Supervision and audit may be carried out by the risk manager or the board. Audit by the loan committee is not advisable, so as to avoid conflict of interest. However, audit may be carried out by an independent valuation committee that verifies whether valuations are realistic.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
There is no regulatory or professional framework.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
Only the title of "géomètre-expert", or expert land surveyor in English, is protected (cfr. law of 11.05.2003 on the protection of the title and profession of the "géomètre-expert").

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Please refer to 2.1(b). This depends on the policies of individual credit providers.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation pf property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

Please refer to 2.1 (a).

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Every credit provider has its own policy on this matter.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

There is no specific legal or professional framework in relation to property valuation. However, the law of 11.05.2003 on the protection of the title and profession of "géomètre-expert", or expert land surveyor, who may act as a valuer, provides that all natural and/or legal persons, authorised in accordance with this law to practice the profession of expert land surveyor and who can be held liable for actions carried out in the context of professional activity or actions carried out by employees, must be covered by insurance.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

No answer provided.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
Apart from the eligibility rules described in the CRR, no additional rules are currently applicable in Belgium.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
No such criteria have been laid down by the regulator.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
No such criteria have been laid down by the regulator. Recently, the Belgian regulator (NBB) considered an additional capital requirement for IRB banks in the form of guidance to be given on the indexation methods used to determine the "value" of the LTV ratio. It was suggested that the indexation should be made according to property type while in terms of geographical location, accuracy should be balanced with availability of a sufficient number of transactions. Based on data from Statistics Belgium, the NBB considered the most detailed level of property price data which allows an indexation without compromising their representativeness as quarterly data broken down by type of dwellings (houses, villas and apartments) at the provincial level. Ultimately, however, the proposed additional measure was not adopted by the Belgian government.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
No additional requirements for methods or tools are imposed by the regulator.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
No such criteria have been laid down by the regulator.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
CRR applies. Market practice is indexing of prices/valuations.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No such criteria have been laid down by the regulator.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No such requirements have been laid down by the regulator.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
No. Furthermore, the concept of "Mortgage Lending Value" is not used in Belgium.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Rules are provided by the national covered bond legislation.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Market value.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extent?
No.

d) Are there specific qualification and independence requirements for valuers?
When it comes to property valuation, in general in Belgium every property is valued during the underwriting process based on either the notarial deed (that includes the property sale price) and/or in case of construction, the financial plan of the architect. In line with the NBB's Covered Bond Regulation, the market value has to be justified in a clear and transparent manner on the basis of a document established by a person who is independent from the persons who are in charge of granting the relevant loans. An expert report is required for real estate which has a value of more than 3 million euro or 2% of the amount of the relevant covered bonds. Otherwise, the value of the real estate can be determined on the basis of the sales value as established in the notarial deed at the time of sale or the report of the architect in the case of real estate in construction. Only the law of 11.05.2003 on the protection of the title and profession of expert land surveyor, who may act as an external valuer, provides a number of minimal requirements regarding diplomas or experience.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Please refer to 4(d) above.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Regular reviews are required: yearly for commercial real estate and three-yearly for residential. These reviews must be more frequent in case of significant changes. Representative real estate indexes can be used.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
The valuation rules of the cover assets determine the maximum amount of Belgian covered bonds that can be issued. The value of the cover assets of each of the categories as mentioned in the section above, will be determined as follows:
- Category 1: minimum of [the outstanding loan amount, 80% of the value of the mortgaged property, the mortgage inscription amount]
- Category 2: minimum of [the outstanding loan amount, 60% of the value of the mortgaged property, the mortgage inscription amount]
- Category 3: value is equal to the book value (nominal amount outstanding), except when the counterparties are not part of the EU in which case the

value will be zero. There is however an exception to this zero-valuation rule for non-EU counterparty exposure:
    - a) in case the non-EU counterparties qualify for credit quality step 1, or
    - b) in case the non-EU counterparties qualify for credit quality step 2 and do not exceed 20% of the nominal amount of Belgian covered bonds issued in either case the value is equal to the book value
- Category 4: no value can be given to this category unless:
    - a) the counterparty qualifies for credit quality step 1, or
    - b) in case the counterparty qualifies for a credit quality step 2, the maturity does not exceed 100 days as of the moment of registration in the cover pool in either case the value is equal to the book value.
- Category 5: no value is given to this category.

Additional valuation rule applicable to any category: in case of delinquencies above 30 days, the value as determined per category is reduced by 50%. In case of default, no value can be given anymore.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
Yes.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
No.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
No.

k) Is there any additional LTV limit on a portfolio basis?
No.

Bulgaria

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
The valuation business in Bulgaria is regulated by the Law on Independent valuers. Pursuant to Art.22, Para.35 of the Law on Independent valuers, the Chamber of Independent valuers assures and regulates the profession of Independent valuer and establishes valuation standards. In particular, the General Assembly of the Chamber of Independent valuers is the body, which establishes the standards for valuation in accordance with Art.27, Para.1, Item 5 of the same Law. According to the decision of the General Assembly of the Chamber of Independent Valuers, effective since January, 2014, the International Valuation Standards (IVS) developed and adopted by the International Valuation Standards Board (IVSB) must be applied and these are mandatory for independent valuers.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
The valuation business in Bulgaria is regulated by the Law on Independent valuers. Pursuant to Art.22, Para.35 of the Law on Independent valuers, the Chamber of Independent valuers assures and regulates the profession of Independent valuer and establishes valuation standards. In particular, the General Assembly of the Chamber of Independent valuers is the body, which establishes the standards for valuation in accordance with Art.27, Para.1, Item 5 of the same Law. According to the decision of the General Assembly of the Chamber of Independent Valuers, effective since January, 2014, the IVS developed and adopted by the IVSB must be applied and these are mandatory for independent valuers. When assessing non-residential properties, the provisions of the Law on Municipal Property apply, as do the Law on State Property and the Regulation on Application of that Law. For the valuation of agricultural land in Bulgaria the following regulations apply: Regulation on procedures for pricing of agricultural lands under Council of Ministers Decree №118 /26.05.1998 amended on 1 August 2013 and the Regulation on base prices of perennial plants.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
There is a legal framework in Bulgaria for valuing residential and non-residential properties. It is described in detail above.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential – Market Value
- Commercial – Market Value

b) Based on what definition? Please provide the definition and reference to where it can be located.
The value of property is determined using the Market Value approach. The mortgage loan amount is determined from the market value of the real estate. Some banks also use another type of value, typically known as the discounted market value.

Market Value is the value rendered in a money equivalent in exchange for which a given asset or liability should be transferred as to the valuation date by transaction under market conditions, between a willing buyer and willing seller after appropriate marketing, whereby each party acts in an informed and prudent manner and not under pressure. Insofar as the Chamber of Independent Valuers applies IVS, the definition of market value is that of the IVS. The market value is determined by a valuer with a certificate from the Chamber of Independent Valuers in Bulgaria. In assessing the market value, the valuer must take account of the following:
- The actual condition and the circumstances of the market of similar properties at the time of valuation;
- Specific features of the property being assessed;
- How the property is used as to the valuation date – as intended, for other purposes or not used;
- In case of possibility the three assessment approaches are applied – Market approach; Revenues approach and Expenditure approach;
- When assessing residential properties, market value is accepted only by the market analogues method.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Have no knowledge hereof.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
In Bulgaria, the following approaches are applied:
- Income approach;
- Cost approach;
- Market approach (comparison method).

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.

According to the decision of the General Assembly of the Chamber of Independent Valuers, effective since January, 2014, the IVS developed and adopted by the IVSB must be applied and these are mandatory for independent valuers.

In terms of the form and content of the valuation report, the following requirements of IVS 103 must be observed:

- Identification data and status of valuer;
- Identification data of assignor and any other alleged users of the valuation;
- Purpose of the valuation;
- Identification of the valued asset / property – description of the property according to the ownership document, geographical location of the property, adjacent infrastructure, environment, physical condition of the property, economic environment, description of the current use of the property, description of the adjoining land – area and characteristics;
- Date of valuation;
- Analyses performed for valuation purposes;
- Character and sources of information used;
- Assumptions and special assumptions;
- Restrictions on use, dissemination and publishing of the valuation;
- Confirmation that the valuation has been performed in accordance with IVS;
- Methods used and their rationale;
- Valuation results;
- Date of report.

The report for valuation shall be supported by enclosures:

- Copy of the ownership document;
- Cadastral sketches;
- Construction papers – Building permit, legalisation acts of different degree of construction, permission to use, projects, explanatory notes;
- Photos of the property, outside and inside;
- Other information used, relevant to conducting the valuation – comparables used, help tables, landlord's reports, rental contracts.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?

The content of valuation reports is regulated.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.

The requirement for the content of valuation reports is the same for both residential and non-residential properties within the meaning of IVS 103.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?

There are no specific requirements defined in a legal form by the government. Nevertheless, during the AQR, the Bulgarian National Bank (BNB) validated the methodologies of the banks using AVMs (both in terms of methodology and in terms of actual valuations). Based on the validation, the BNB carried out an individual assessment for each bank on whether the use of AVMs would be recognised as good practice or not. In the case of DSK Bank, the BNB accepted the AVM as a good practice.

b) For what purpose are AVMs employed in your Member State?

- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

No.

c) Do you foresee an increase in the future use of AVMs?

No.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.

Digitalisation of property data and services related to the valuation of properties.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.

There are such intentions declared by the Chamber of Professional Valuers and members of Royal Institution of Chartered Surveyors (RICS) in Bulgaria.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed.

The law on Independent Valuers, effective since 15 December 2008. Art.7 from LIA regulates professional competence of independent valuers:

- Successful passing of an examination at the Chamber of Independent Valuers;
- Written declaration by the person that he/she will comply with the Code of Professional Ethics of Independent Valuers and will apply the Valuation Standards approved by the Chamber of Independent Valuers;
- Entry in the register of the Chamber of Independent Valuers and obtaining of a capacity certificate as an independent valuer.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?

It is regulated.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.

Pursuant to Article 4 of the Law on Independent Valuers, independent valuers must comply with the Code of Professional Ethics of Independent Valuers and the following principles:

- Independence – Non-commitment of the registered valuer, including through his associates, shareholders and personnel, to the assignor of the valuation, to his managers and related parties with them;
- Objectivity, impartiality and avoidance of prejudice and conflict of interest when conducting a valuation;
- Professional competence – possessing and maintaining professional knowledge of the current legislation and of the standards and methods for making valuations;

- Confidentiality – Confidentiality of information on the activity of the assignor obtained as a result of the valuation carried out;
- Professional behaviour, integrity and responsibility. The valuer is personally responsible for the valuation conducted, the company of the independent valuer is responsible for the valuation carried out on his behalf;

In addition, according to Art.50 of the Law on loans for real properties of consumers, transposing the requirements of Directive 2014/17 / EU:

Art. 50. (1) While performing a valuation of a real property, creditors are obliged to use persons, who have been entered in the register of independent valuers under Art. 15 of the Law on Independent Valuers and have received a capacity certificate as an independent assessor.

(2) The valuers under Para. 1 are obliged to apply the valuation standards confirmed by the general meeting of the Chamber of Independent Valuers.

(3) Creditors shall guarantee that the activity of carrying out a valuation of a real property by the valuers under Para. 1 is separate from the process of granting the loan, so that the valuers are able to make an independent and objective valuation. The valuation shall be documented and stored on permanent media by the creditor.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
It is provided.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for all valuers.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
Pursuant to Article 5 of the Law on Independent Valuers, the independent valuer is a person, who on the basis of registration in the register of independent valuers, has the right to prepare and sign a valuation report by applying the necessary standards.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
It is protected by the Law on Independent Valuers.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
External and internal valuers must have a certificate issued by the Chamber of Independent Valuers certifying the right to carry out valuation of real estate, machinery and equipment, agricultural lands and perennial crops, commercial enterprises and other assets.

- If yes, do credit institutions have the possibility to employ both internal and external valuers?

Valuations are performed by both internal and external valuers. With external valuers, banks enter into contracts with regulated companies for asset valuations. Most contracts are concluded with external valuation companies, who have valuers across the whole country.

- Is one type of valuer typically employed more frequently than the other?

All Bulgarian banks work with external valuation companies, as well as with individual valuers.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
There is no legislative norm in this respect.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?

Pursuant to Article 18, Item 7 of the Law on Independent Valuers, the independent valuer is obliged to insure himself for risks related to his professional activity.

- Lenders to use only valuers covered by professional indemnity insurance?

Please see to 2.4 (a) first bullet.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

There is a requirement pursuant to the Law on Independent Valuers.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
Regulation CRR 575/2013 applies.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
Regulation CRR 575/2013 applies.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
No.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
Not available.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
Regulation CRR 575/2013 applies.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Reviews are usually carried out by way of a new full size valuation report.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
Regulation CRR 575/2013 applies.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? *If yes, what do they consist of?*
Not available.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
General rules for valuation are described in the Law on Mortgage Bonds.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Pursuant to the Law on Mortgage Bonds the market value is used.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Real estate must be insured against loss and can be the following types:
- Residential properties, including rented;
- Villas, seasonal and holiday homes;
- Commercial and administrative-office premises, hotels, restaurants and other similar properties;
- Industrial and warehouse premises;

d) Are there specific qualification and independence requirements for valuers?
Pursuant to the Law on Mortgage Bonds the valuation of real properties are carried out by licensed valuers with the necessary qualifications and experience.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
According to the Law on Mortgage Bonds – no.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Yes, according to Article 18 of the Law on Mortgage Bonds:
Revaluations of real properties, against which loans are secured and which have been entered into the mortgage bond coverage register, must be conducted at least once every twelve months for loans which:
1. Have outstanding liabilities in excess of 1% of the bank-issuer's own capital, or
2. During this period, they have not been continuously classified as regular risk exposures.
In addition, Regulation (EC) 575/2013 applies.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
The following limits apply: not more than 80% of the market value of residential properties and not more than 60% of the market value of other real estates.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
No

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? *If yes, please specify.*
No answer provided.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
Not available.

k) Is there any additional LTV limit on a portfolio basis?
Yes, according to the Law on Mortgage Bonds: Art.6. (3) The coverage of mortgage bonds from a given issue (the sum of the main and the substitute coverage) may not be less than the total value of the principals liabilities of the mortgage-backed securities of this issue in circulation outside the issuing bank.

Croatia

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.

Real estate valuation in the Republic of Croatia is regulated by the Real Estate Valuation Act (Official Gazette No. 78/2015) adopted on 3 July 2015, which has been in force since 25 July 2015. The Act covers the valuation of all real estate properties, both those for business and residential purposes, as well as all types of land.

The Real Estate Valuation Act lays down the framework for real estate valuation and specifically determines the following:

- Valuers – Please refer to 2.1 (a) for further details;
- The composition and competencies of the valuers' commission and the high valuers' commission;
- The competencies of administrative authorities at county level and at the level of the City of Zagreb and large cities;
- Methods of real estate valuation;
- The manner of appraising the value of rights and encumbrances that influence the real estate value;
- The manner of appraising fees of expropriated properties;
- The manner of collecting, recording, appraising and issuing data necessary for real estate valuation relating to all real properties in the Republic of Croatia, irrespective of their ownership.

The term real estate includes land, buildings connected with this land, and all that naturally is situated on this land. Real properties can be divided into the following types (according to their purpose):

- Residential properties
- Business properties:
  - Commercial purpose;
  - Industrial purpose;
  - Business premises;
  - Hospitality facilities;
  - Holiday properties;
- Land (building and agricultural).

The subject matter of real estate valuation can be a cadastral plot, including all that is relatively permanently connected with it, on its surface or below its surface and is used in a usual manner.

Real estate valuations may only be carried out by an authorised person: permanently court-appointed experts and permanently court-appointed valuers. The Act concerns exclusively the market value that is valued by applying three methods and seven procedures. Furthermore, it lays down the method in which data is collected by valuers by applying the prescribed methodology, and subsequently assessed and used. The Act lays down supervision and sanctions in the event of violations.

Real estate value is influenced to a large degree by the following:

- Physical characteristics: location; legality; access; energy efficiency; size; shape; ground; drainage; topography. vegetation; climate; view; pollution; built-in materials; design and harmony with surroundings.
- Economic condition: market stability; possibility of taking out a loan; prise; tax rate.
- Situation in the society: population trends; family laws and cultural inheritance.
- Laws: Local, regional and national; plans; building laws; public construction and contributions.

All the above specified factors that influence the value of real estate are changeable over time. The list of laws and regulations applicable on the occasion of the valuation is comprehensive, please check footnote for a complete overview.[1]

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.

The above-mentioned acts and ordinances cover all real estate properties, including those with a commercial purpose. The standards and methods are the same for all types of real estate, irrespective of their purpose.

[1] Real Estate Valuation Act (OG 78/15); Regulation on real estate valuation methods (OG 105/15); Act on property and other real rights (NN 91/96; 68/98; 114/01; 79/06; 141/06; 146/08; 38/09 153/09; 143/12); Building Act (OG 153/13); Physical Planning Act (OG 153/13); Building Inspection Act (OG 153/13); Land Registration Act (OG 91/96; 68/98; 137/99; 114/01; 100/04; 108/07; 152/08); Law on State Survey and the Real Estate Cadastre (OG 16/07; 124/10; 56/13); Law on mediation in real estate transactions (OG 107/07; 144/12); Law on Proceeding with Illegally Built Buildings (OG 86/12); Act on Water Management Financing (OG 153/09; 90/11; 56/13); Law on tourism and other construction land not appraised in the transformation and privatisation process (OG 92/10); Maritime Domain Act (OG 158/03; 141/06; 38/09); Regulation on the water fee rate (OG 78/10; 76/11; 19/12; 151/13; 83/15); Regulation on the determination of the building volume for the calculation of utility fee rates (OG 136/06; 135/10; 14/11; 55/12); The Ordinance on the manner and the valuation procedure relating to tourism land or buildings in camps, the manner of paying out civil divisions, the manner of determining the market prize of other building land in respect of which, pursuant to a special regulation, it has been established that they serve for a regular use of the building (OG 12/11); The Ordinance on the manner and the valuation procedure relating to tourism land owned by local self-government units and the manner, procedure and conditions in order to be granted a concession for the remaining tourism land owned by local self-government units (OG 12/11); The Ordinance on energy certification of buildings (OG 113/08; 36/10; 135/11; 81/12; 29/13; 78/13); HRN EN ISO 9836/2011 (calculation of building surfaces); Business plans of local self-government units; Decisions taken by local self-government units on utility fee rates; Decisions taken by local self-government units on equipping building land with utility infrastructure and the amount of utility infrastructure costs; Standards of the RC in the building industry; Standard calculation (Bulletin IGH); Data on the standard price of building Ministarstvo Graditeljstva I Prostornoga Uređenja (MGIPU); European Valuation Standards (EVS).blue book 7 edition The European Group of Valuers' Associations (TEGoVA); Building costs indicators (HKA 2017).

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential: Market Value
- Commercial: Market Value

b) Based on what definition? Please provide the definition and reference to where it can be located.
The Market Value is used for the valuation of property, which is understood as the estimated amount at which a property could be exchanged as of the valuation date between a willing buyer and a willing seller, in a transaction according to market conditions, after appropriate advertising, wherein each party has acted in an informed and reasonable manner, without any compulsion.[2]

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
In order to determine the value of real estate, the Market Value is mostly used. However, there are some special cases where, for instance, there is no market for the real estate property in question. In such cases, the value of real estate property is determined on the basis of a market model. In addition to the Market Value, the present building value of real estate may be stated as well as the new building value. Further to Market Value valuations, there are specific cases that are not used necessarily when taking out a loan for purchasing real estate. Such cases relate to the so-called investment loans for the construction of real properties.

d) Depending on the valuation base used, which valuation methods (comparison, capitalisation, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
The valuation method is chosen according to the type of the property being valued, taking into account existing customs in usual business transactions and other circumstances linked to a single case, in particular, with respect to available data. The choice of method is explained in detail in the valuation report. The market value is determined on the basis of the results of the method(s) used, while respecting the importance that the particular method or methods used provide. If several methods prescribed are used, one method is the basic one while the others serve to support and check the result.
   a. Residential Properties:
      i. Comparison method
      ii. Cost method
      iii. Income method
   b. Commercial Properties:
      i. Comparison method
      ii. Cost method
      iii. Income method

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
The valuation report is a document that consists of: the valuation statement in EUR and HRK and all relevant data, calculations and conclusions related to the valuation. The valuation report prepared for mortgage lending purposes should contain the following:
- A cover page with an identification number of the report, general data on the property being valued, (property type, address stated in the manner that unambiguously identifies the property), identity of the commissioning party with the exact address, the identity of the potential user (loan applicant/borrower) with the exact address, the identity of the valuer and data about him/her, and the date the report is drawn up (month and year).
- A brief statement specifying the most important assumptions or restrictions and a valuation statement in EUR and HRK, indicating the valuation date.
- Specification of all persons responsible for preparing the valuation, certified by an authorised valuer and /or a person authorised to represent him/her.
- Authorisation of the valuer.
- Important data: valuation date (day, month, year); date of visiting the property (if such a visit was paid) or an explanation in the contrary case; commissioning party – full name and address; property – type; property address – full address; data from the Land Registry Office; data from the Cadastre; property description – location, and condition, access to public transport; existence of licences that prove the legality of the property or that would ensure its legality provided administrative procedures are carried out and detail of all possible restrictions on the property concerning its legality.
- Statement of the property's surface.
- Analysis of market data necessary to calculate the value of property with the adopted method.
- The calculation of property value with one of the methods (the second method can be an ancillary method, i.e. control of the stated value with a previous description of the method and the reason of its choice.
- Photo evidence.
- Documentation.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The content of valuation for lending purposes is strictly prescribed by regulator.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The form of valuation reports is the same for all types of property and depends on the used valuation method.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
In Croatia, there are no specific rules/guidance on the use of AVMs.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are not used in Croatia at the moment.

[2] Available here: http://narodne-novine.nn.hr/clanci/sluzbeni/2015_07_78_1491.html.

c) Do you foresee an increase in the future use of AVMs?
With further development and supplement of data available via E-Real property, there could be a basis for introducing AVMs in Croatia.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
E-Real property is a Croatian database of realised property purchases and sale transactions recorded with the tax administration of the Republic of Croatia. This database is important as it secures the transparency of the real estate market, and it enables valuers to calculate the Market Value of the property.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
The Ministry of Construction as well as certain institutions whose activities relate to real estate transactions organise seminars and workshops to improve and develop the real estate valuation process. This includes the previously mentioned E – Real property database.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
Pursuant to Article 3 (2) of the Real Estate Valuation Act, the real estate valuations shall be carried out by permanently court-appointed experts and permanently court-appointed valuers, whose authority emanates from special rules regulating the operation of court and expropriation procedures. The requirements and conditions for appointing valuers are described in special rules relating to the Courts Act ("Official Gazette", No. 28/13, 33/15, 82/15). As a permanently court-appointed expert, the court can appoint a person for whom during the nomination procedure it has been established that he/she fulfils the following conditions:

- he/she must be a citizen of the Republic of Croatia, a citizen of an EU Member State or a citizen of a state signatory to the Agreement on the European Economic Area;
- he/she must be medically fit to carry out the activities of a permanently court-appointed expert;
- he/she must have completed appropriate studies, or possess an appropriate school education. This person must also have the following professional experience:
  - at least 8 years – if this person has completed a graduate university study or a specialist graduate professional study;
  - at least 10 years – if this person has completed an undergraduate university study or an undergraduate professional study;
  - at least 12 years – if this person has completed a suitable secondary school, while for single professions there is no suitable undergraduate university study or undergraduate professional study or graduate university study or a specialist graduate professional study;
- must have successfully completed professional training;
- he/she has entered into an insurance agreement protecting against liability resulting from the activities of a permanently court-appointed expert.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Competence requirements are regulated by law as described above.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
Pursuant to the Real Estate Valuation Act, the valuer is obliged to carry out the activities in respect of which he has been authorised in a professional, manner, independently and impartially, and he/she must present all the circumstances that bring into question his/her impartiality or a possible conflict of interest. The valuer shall sign a statement on impartiality and independence which is an integral part of the valuation report. If characteristics of the real estate in question exceed the competence limits of the valuer, he/she shall include, in the preparation of the valuation report, a professional with specific competences. The valuer shall draw up a valuation report in a correct manner and in line with regulations and rules of the profession.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Sufficient independence is prescribed.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for all valuers.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
The persons who carry out real estate valuation are authorised by competent services, they meet the prescribed requirements and they obtain the title of an authorised court-appointed expert or valuer. All court-appointed experts and valuers are members of the associations of court-appointed experts and valuers that endeavour to improve and protect the dignity of the profession.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Qualifications and requirements for authorised valuers as well as the quality of their work are prescribed by law. Any departure from what has been prescribed by law are potentially punishable by penal measures.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

Have no knowledge hereof.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Have no knowledge hereof.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

In accordance with law, valuers and court-appointed experts must enter into an insurance agreement protecting against liability resulting from valuation activities.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

Please refer to 2.3 (c).

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
Have no knowledge hereof.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
Have no knowledge hereof.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
Have no knowledge hereof.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
Have no knowledge hereof.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
Have no knowledge hereof.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Have no knowledge hereof.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
Have no knowledge hereof.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
All documents relating to the property being valued must be dated relatively recently while the data used to value the property must not be more than four years old.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
The definition of the Market Value has been determined by the Real Estate Valuation Act as well as the methods for its determination.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Have no knowledge hereof.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Have no knowledge hereof.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Not available.

d) Are there specific qualification and independence requirements for valuers?
Special qualification and registration rules apply to valuers described in earlier answers.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
The acts and regulations linked to real estate valuation are the same for all properties, regardless of their purpose or loan value.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Have no knowledge hereof.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Have no knowledge hereof.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
Have no knowledge hereof.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
Have no knowledge hereof.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
Have no knowledge hereof.

k) Is there any additional LTV limit on a portfolio basis?
Have no knowledge hereof.

Czech Republic

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I. THE VALUATION

GENERAL REMARK: for further details please refer to the Czech Banking Association's (CBA) Standards of Banking Activities for Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions.[1]

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
The basic rules regarding property valuation are described in Law No. 151/1997, COLL and Law No. 190/2004, COLL, on Bonds (Mortgage Collateral Bonds, "HZL"). The banking sector itself issued "Standards of Banking Activities – Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions" (Czech Banking Association (CBA) Standards).

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
No, Law No. 151/1997 and the CBA Standards cover both residential and commercial property.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential
- Commercial

For both residential and commercial properties, the Market Value, Mortgage Lending Value, Pledge Value and Usual Value (in usual value all risks are analysed) are used.

b) Based on what definition? Please provide the definition and reference to where it can be located.
Within the 2016 CBA Standards of Banking Activities on "Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions" the following definitions are offered:
- Market Value: The estimated amount for which the property 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 being under compulsion.
- Pledge Value: The pledge value, according to the Property Valuation Act, is equal to the usual price, further taking into account:
  a) permanent qualities of the property and qualities that are sustainable in the long run;
  b) revenues that could be achieved by a third party if they properly manage the property;
  c) rights and defects connected with the property;
  d) the conditions on the local real estate market, including influences thereon and expected future developments.

The pledge value must not exceed the usual price or the Market Value of valued properties.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Generally, no other valuation bases are used.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
The following three valuation approaches should be applied to the valuation of real estate property: Property Replacement Value, Income Approach and Sales Comparison Value. All three are described in detail in the CBA Standards of Banking Activities and each bank has detailed guidelines.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Please refer to 1.3 (c).

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
Please refer to 1.3 (c).

[1] The CBA's Standards of Banking Activities for Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions is available here: https://www.czech-ba.cz/en/projects/standards.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The following answer, which is based on the CBA Standards of Banking Activities, provides a response to 1.3 (a-c). In addition, each bank has detailed guidelines on these matters.

In the Czech Republic, valuation reports must include the precise identification of the property (current or future condition, as the case may be), which is being valued. The title page of the valuation report should provide at least some basic identification, i.e., the reference number of the appraisal, title (type of property) and address, purpose of the valuation, client and provider, number of pages, date of the valuation, date of issue, and electronic dispatch information (the latter required only for certain banks).

The valuation report is presented to the bank in electronic form (directly), or, upon request, in undetachable printed form (e.g. through a client). The valuer will sign each printed counterpart and stamp each one, if applicable. Valuations prepared by a legal entity must include the name of the responsible person on the part of the provider. The electronic and printed version must be identical in terms of contents. The bank may also use fully electronic applications (systems) with full auditability of all information. Each valuation should be prepared in such a way that the bank receives the maximum amount of information on the valued properties on the minimum number of pages.

The valuer deals with major buildings or individual units, garages, ancillary structures (with a significant impact on the value estimate, i.e. in particular large buildings with a high-quality construction and including potential income), major utilities, exterior adjustments (e.g., roads and reinforced areas within the site being valued), and other elements and characteristics of the buildings and land plots (regular utilities, wells, exterior adjustments and permanent greenery), which are not part of the individual (ancillary) valuations, should be included and described in a simple way (by way of a brief description of the content, construction and condition, in particular) in the descriptive section of the valuation, and their impact on the value estimate should be taken into account.

The materials used in the preparation of the valuation should be specified in the descriptive or other section of the valuation report, including the precise specification of the individual materials used, unless an electronic application (system) with full auditability of the method and completeness of attachments in electronic form is used.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
Please refer to 1.4 (d).

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

Please refer to 1.4 (d).

c) Do you foresee an increase in the future use of AVMs?
Please refer to 1.4 (d).

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
AVM are only used for the monitoring of the market but not for original valuations.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
The CBA Standards of Banking Activities – Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions", which aim at harmonising, and achieving a common and uniform interpretation of, the basic terms and approaches used in valuing property that is to be pledged (used as collateral), constitute a market initiative by banks and savings and home loan associations.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
The Trade Licensing Act defines criteria for valuation profession (e.g. University degree obtained by studying in a program with focus on property valuation. The law defines more possibilities that fulfil these conditions). Banks typically use certified valuers. Valuers are chosen carefully within a selection process. Valuers are monitored and controlled – the cooperation is being regularly assessed. The majority of banks deal with an independent process of selecting, ordering and paying for valuations.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
Independence of the valuer is ensured by regulations. The regulator thoroughly requires the independence of valuers within inspections. As a result, there is a modification of the CBA standards relating to the matters of the independence:
- Independence from all participants in transactions and processes;
- Exclusion from the credit decision process;
- The valuer shall not participate in the loan process or in deal-making;
- The expert's remuneration shall be independent from the amount of the assigned value or from deal-making.

For further details please refer to the CBA Standards of Banking Activities for Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions.[4]

[2] The CBA's Standards of Banking Activities for Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions is available here: https://www.czech-ba.cz/en/projects/standards.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The same framework is valid for all.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
It is protected by the Trade Licensing Act and also by the certificate authorities. Please refer to 2.1 (a).

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Not applicable.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

Please refer to 2.3 (b).

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Most valuations are carried out by external valuers although both internal and external valuers may be used. The basic criteria for valuers are independence, quality and reliability.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

Please refer to 2.4 (b).

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

Most valuers are insured, however, the insurance is not a solution for fraud or low quality of valuation reports. Banks have control mechanisms and use them to analyse valuation reports.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
The relevant Czech National Bank (CNB) regulation is currently under review. The recommendation of the regulator is that most of the loans should be less than 80% LTV. For residential real estate meant for rent, it is recommended that LTV does not exceed 60%.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
The relevant CNB regulation is currently under review.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
The Regulator inspects the system in each bank on a case by case basis.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
This question is not relevant within the framework of the Czech Republic.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
This question is not relevant within the framework of the Czech Republic.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Reviews are conducted via full-size valuation report.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
This is solved case by case according to specific risks.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
Regulator has all valuation data available during inspections and audits.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
These elements are covered by legislation. Please refer to 1.1 (a).

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Valuation rules for asset coverage are provided by general law. Please refer to 1.1(a).

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Pledge Value – The pledge value, according to the Property Valuation Act, is equal to the usual price, further taking into account:
- Permanent qualities of the property and qualities that are sustainable in the long run;
- Revenues that could be achieved by a third party if they properly manage the property;
- Rights and defects connected with the property; and
- The conditions on the local real estate market, including influences thereon and expected future development.

For further details please refer to the CBA Standards of Banking Activities.

c) In the case of Market Value valuations, are there any prudential or longer term/ sustainable features of the property to be considered? If yes, to what extend?
Not relevant (the pledge value is being used).

d) Are there specific qualification and independence requirements for valuers?
Please refer to 2.1(a) and 2.3(b).

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Qualification requirements are the same, but commercial property is mostly valued by well-known and experienced companies.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
The pledge value must be used.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
The LTV ratio/limits are currently under review. However, at the time of writing LTV criteria arising from mortgage loans may not exceed 70% of the aggregate mortgage lending value of the mortgaged property.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
No, they do not.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
The LTV cap for residential, commercial and agricultural loans is 200%.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
Yes, a loan is ineligible if the individual LTV exceeds 200%.

k) Is there any additional LTV limit on a portfolio basis?
None other than the 70% portfolio LTV limit.

Denmark


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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
The Danish Financial Supervisory Authority (FSA) has issued detailed valuation standards for residential property in the Executive Order on Valuation of Mortgages and Loans in Real Property which are Provided as Collateral for the Issue of Covered Mortgage-Credit Bonds and Covered Bonds" (The Valuation Order). For loan origination funded by covered bonds, the properties to be valued must normally be inspected both externally and internally, and for loan offers the valuation by inspection must be less than six months old. There are exceptions for the use of AVMs.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
Detailed valuation standards for commercial property are to be found in the Valuation Order with the same valuation base as for residential property but with different valuation methods.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential
- Commercial

The basis for mortgage valuations is market value as defined in the Danish Valuation Order, taking into consideration the general economic situation and the general trend in prices. Especially for market values based on capitalisation the Valuation Order has detailed requirements prescribing how to determine the market value.

b) Based on what definition? Please provide the definition and reference to where it can be located.
The market value is defined in the Valuation Order, Section 2.1.: "The estimated amount for which the property would be traded 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 being under compulsion. In the event that circumstances are estimated to condition a special scarcity price, this shall be disregarded in the valuation. The valuation shall take into account the current risk of changes in market conditions or structural changes".

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Market value as defined in the Danish Valuation Order is the only valuation base for lending purposes.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
The comparison method is used for private residential properties and agricultural properties. According to the regulation for the valuation of most types of commercial properties (residential rental properties included), the investment value is used for mortgage lending purposes. The investment value is derived from the capitalisation of the net rentals. The basis for the calculation is primarily the actual rent or the market rent, depending on which is lowest, calculated on an annual basis.
The depreciated replacement cost method is used for industrial, manufacturing properties and properties for educational, social and cultural purposes. However, for loans funded by covered bonds the cost method can only be used for properties that are never or rarely sold in the market and, according to the Danish FSA guidelines, this method can only be used for very limited types of properties.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
There are no formal requirements in terms of the form of the valuation report, hence the form will differ between lenders. As for the content, the requirements are stated in the Valuation Order, section 29. The terms under which the valuation has been carried out must be stated and, according to the Danish FSA, references to recent comparable sales are mandatory.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
Not available.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
For commercial properties, the applied parameters for calculating the investment value must be documented e.g. it is mandatory to state the floor area and estimated market rent per square meter, respectively, for each of the categories of premises in the property. The same applies if possible for the actual rent per square meter.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
Mortgage banks can only use AVMs for loan origination if they get approval from the Danish FSA. Most Danish mortgage banks have received approval to use own models but the precise basis of the mortgage banks' application and the authorisation given have not been published.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are used for both purposes.

c) Do you foresee an increase in the future use of AVMs?
Due to model improvements, it is likely that a larger portion of valuations will be done using AVMs.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Further digitalisation of input used in valuation in combination with AVMs.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
Not relevant at the time of writing.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
The Valuation Order refers to the requirements in Art. 208(3)(b) CRR, i.e. the valuation must be done by a valuer who has the necessary qualifications, ability and experience. There is no requirement of formal qualifications. Ensuring the qualifications of the valuers is self-regulated but the FSA will control the quality of the valuations during inspections.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
The Valuation Order refers to the requirements in Art. 208(3)(b) CRR, i.e. the valuer must be independent from the credit decision process. During frequent inspections, the Danish FSA will assess whether sufficient segregation of duties is present or not and if the valuations are biased or subject to undue pressure.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
"DiplomValuar" and "Diplom i Vurdering" are protected titles for persons with these qualifications provided by the Danish Association of Chartered Estate Agents and recognised by the Danish authorities. A number of Danish valuers have the protected title Member of the Royal Institution of Chartered Surveyors (MRICS).

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

Valuers may be either internal (employed in a mortgage bank) or external to the lending institution. However, there is a long tradition in Denmark that the individuals carrying out property valuations in connection with mortgage lending are employed by the lending mortgage bank. The mortgage banks consider that valuation is an integral part of the lending process, for which the management of the mortgage bank is responsible. External valuers are primarily used for valuation of private residential properties and are mostly real estate agents specialised in valuation with supplementary education. In order to use external valuers the mortgage bank with covered bond funding must give detailed valuation instructions and must carry out regular and thorough random sample checks by inspecting an appropriate percentage of the external valuations.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Please refer to 2.3 (a).

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

Internal valuers do not have insurance covering errors in valuations. Such errors are the risk of the mortgage banks as employer. Due to the conditions for lenders with covered bond funding using external valuers, questions are very seldom raised regarding indemnity between the mortgage bank and the external valuer. External valuers are under no obligation to have insurance covering the risk of errors made in connection with the valuation task. In the agreement between the mortgage bank and the valuer, insurance may be requested but it is not usual practice. Estate agents are legally obliged to have indemnity insurance in relation to their purchasing and selling activities. However, the insurance only covers estate agent valuations ordered directly by the consumer, and not valuations ordered by professionals including mortgage banks. There is no legislation which determines exactly what the valuer is responsible for vis-à-vis his client. However, the valuer can be liable according to general Tort Law and based on the contract between the lender and the valuer regarding the valuation. There is however a special regulation regarding estate agents' liability.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

Please refer to 2.4 (a).

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State

Danish legislation sets LTV ratios for eligible residential and commercial mortgage assets. The LTV limit for residential assets is 80% of the market value of the property; the LTV limit for commercial assets is 70%, but for LTVs over 60% only against extra collateral.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?

The Danish FSA has not published any interpretations regarding the provision in the CRD regarding "more frequent monitoring where the market is subject to significant changes". When applying for FSA authorisation to issue covered bonds, the mortgage banks had to convince the FSA that their intended procedures are sufficient. The FSA will check this on inspections.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?

No criteria have been published. However, during inspections the Danish FSA will assess models used by the lenders.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.

Lenders have their own models based on official sales statistics.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?

No criteria have been published. However, during inspections the Danish FSA will assess if best practise is used.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.

A desk top valuation is standard. The Danish FSA has not issued any guidance on this. Neither when an on-site inspection might be needed nor on what basis the valuation should be done (maximum duration of data and cost data etc.). The Danish mortgage institutions have their own standard operating procedures (SOP). Although the FSA at inspections will require these and normally will encourage "best practice" the SOPs will probably differ substantially.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?

No criteria have been published.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?

No data requirements have been published.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?

Please refer to 1.2 (b).

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?

Valuation rules are prescribed by general law (The Valuation Order).

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?

The Market Value.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?

In the event that circumstances are estimated to condition a special scarcity price, this shall be disregarded in the valuation. The valuation shall take into account the current risk of changes in market conditions or structural changes.

d) Are there specific qualification and independence requirements for valuers?

The requirements are the same as for lending based on covered bond funding.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?

The requirements are the same as for lending based on covered bond funding, i.e. the valuation methodology differs.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?

There are no specific requirements besides the published CRR requirements.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.

No special LTV limits are used solely for calculating collateralisation rates for the cover pool.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?

Yes.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
No, for loans with an LTV above 80/60%, the credit institution must provide supplementary collateral.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
No. Loans with LTV above 80/60% can remain in the cover pool but the credit institution must provide supplementary collateral. In a specialised mortgage bank, which does not take deposits, removal of loans is not possible as the only way to finance the loans is by covered bonds.

k) Is there any additional LTV limit on a portfolio basis?
No additional LTV limit is prescribed.

Germany

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
Article 19(1) of the MCD has been transposed into German law by § 505c BGB (German Civil Code) and §18a KWG (German Banking Act). Both provisions require credit institutions to apply reliable standards for the valuation of residential real estate. In this context, the existing German regulatory framework for property valuation is considered as fulfilling the 'reliable standards' requirement in accordance with Article 19(1) of the MCD. This framework consists of acts, directives and guidelines focusing on both residential and commercial properties. In the explanatory statement to the Civil Code amendment, explicit reference is made to the rules on Mortgage Lending Value as being considered as a reliable valuation standard.

The general framework for Market Value is provided by the provisions of the German Federal Building Code (Baugesetzbuch (BauGB)) that regulates property valuation in Art. 192 – 199. Besides the definition of Market Value (Art. 194), the Code contains in its Art. 199 the delegation of power to the government to adopt rules – through a statutory order – regarding the application of similar principles and approaches for the determination of market values and the derivation of necessary valuation data.

Thus, the technical rules for the determination of the Market Value are laid down in the new Real Estate Valuation Directive (Immobilienwertermittlungsverordnung (ImmoWertV)) that took effect on 1 July 2010. This Directive is supplemented by four Property Valuation Guidelines (Wertermittlungsrichtlinien (WertR)) providing the methodology of the main valuation approaches: the Cost Value Guideline (2012), the Comparison Value Guideline (2014), the Income Value Guideline (2016) and the Standard Land Value Guideline (2011). They only apply to the public expert committees at local level in the public service remit (compulsory purchase etc.) but also serve as a benchmark for private sector valuations.

Furthermore, the rules on the valuation of property for lending purposes on the basis of the Mortgage Lending Value are laid down in Article 16 of the Pfandbrief Act (PfandBG). The Pfandbrief Act provides delegations of power to stipulate in greater detail technical requirements. This resulted in the Directive on the Determination of the Mortgage Lending Value of Properties pursuant to Art. 16 of the Pfandbrief Act (Beleihungswertermittlungsverordnung – BelWertV) published in 2006. The Directive also covers the methodology of mortgage lending valuation (rules for cost, comparison and income approaches).

The recognition of reliability is not restricted to the Real Estate Valuation Directive and the Directive on the Determination of the Mortgage Lending Value, but dedicated to the whole German property valuation framework. It applies to residential as well as to commercial property.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
The legal framework specific to the valuation of commercial property is provided by the aforementioned Article 16 of the Pfandbrief Act in conjunction with the BelWertV Directive. The latter applies to commercial property as well as to the valuation of residential property. A full set of legal rules also exists for the valuation of the Market Value of commercial properties. Please refer to 1.1(a).

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
   - Residential
   - Commercial

   Please refer to 1.2(b).

b) Based on what definition? Please provide the definition and reference to where it can be located.
In Germany, the following two valuation bases are typically used for the valuation of both residential and commercial property for lending purposes:
   - Market Value (Verkehrswert): Art. 194 of the German Federal Building Code defines the Verkehrswert (Market Value) as the price, which would be achieved in an ordinary transaction at the time when the assessment is made, taking into account the existing legal circumstances and the actual characteristics, general condition and location of the property or other object of assessment, without consideration being given to any extraordinary or personal circumstances.
   - Mortgage Lending Value: Article 16 of the Pfandbrief Act provides the following definition of the mortgage lending value:
     - "The Mortgage Lending Value must not exceed the value resulting from a prudent valuation of the future saleability of a property and taking into consideration the long-term, permanent features of the property, the normal regional market situation as well as the present and possible alternative uses."
     - The Mortgage Lending Value is an independent value and is conceived as a safe top limit for long-term mortgage credits. Since it is only based on the sustainable aspects of the property, its careful calculation is in line with

the safety requirements of mortgage bonds (Pfandbriefe), thus protecting the mortgage bondholders against defaults and market volatilities. It also applies to the capital allocation, i.e. to the risk weighting of mortgage loans. It is explicitly stated that the Mortgage Lending Value may not exceed the market value, that the valuation has to be carried out by an independent and approved valuer and that speculative elements may not be taken into account.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
   - Insurance value (Versicherungswert): The insurance value is regulated in the German Insurance Contract Act (Versicherungsvertragsgesetz (VVG)). The value is determined according to the scope of indemnity of the insurance, e.g. replacement value or depreciated costs.
   - Value for taxation (gemeiner Wert/ Einheitswert): The assessment of value for taxation purposes is laid down in the German Tax Valuation Act (Bewertungsgesetz (BewG)). The definition is similar to the market value, there are some variations concerning date of valuation and methodology. A revised regulation was elaborated in November 2016.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
   For Market Value purposes the following approaches are applied:
   - Comparative Method: To be applied to value land and units where there are comparable properties such as freehold apartments, single-family houses, town houses etc.
   - Depreciated Reconstruction Cost Method: Total of land value and construction value, taking into consideration depreciation and outstanding repairs, used to value single-family houses that are difficult to compare or other buildings that are specialised. The calculated value has to be adjusted to the market situation.
   - Income Method: Capitalisation of the net income of the property. The net income is reduced by the proportionate land value, the remaining value being assigned to the building. The capitalisation rate is reflected by the interest rate derived from actual sales of comparable properties and applies to the present land value as well as to the building. The land value is capitalised indefinitely, the building value over the remaining economic life of the property.
   - Other non-regulatory methods, like Discounted Cash Flow approach and residual method: To be applied to special purpose valuations (i.e. management properties or undeveloped land) and increasingly also to commercial property.

   For lending purposes, the Mortgage Lending Value takes into consideration the fact that the property serves as a security for the loan. Although the comparative, depreciated reconstruction value and income methods also apply to the assessment of the Mortgage Lending Value, the following safety features translate the specificities of the property as Mortgage Collateral:
   - Sustainable net rental income: The income stream of the property is limited to its sustainable net rental income, excluding any over-renting and additional extraordinary cash flows.
   - Discount of property management and administration costs: Property administration and management costs to be paid by the owner reduce the net rental income. There is a minimum rate for these costs that has to be considered.
   - Minimum capitalisation rate: The capitalisation rate must reflect long-term market developments, the sustainable income producing capacity of the property, alternative uses as well as its future marketability. The banking supervisory authority fixes capitalisation rate floors for commercial and residential property according to market developments.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
   For property valuations based on Market Value there are no detailed rules in the above-mentioned regulations regarding form and content of the valuation report. Market and location surveys, which are conducted professionally by research companies within the banks, specific departments of agents' organisations, some academic institutes at universities and several independent enterprises often provide important information for an expert's property valuation. Format and content of valuation reports generally follow EVS 2016 rules.
   Regulations for mortgage lending valuation reports are laid down in Article 5 of the Directive on the Determination of the Mortgage Lending Value. The Mortgage Lending Value must be determined by way of a report that mainly comments on:
   - The quality of the property and location;
   - The regional property market;
   - The legal and actual attributes of the property;
   - Its usability and marketability.

   The report must also deal with the question of whether a sufficiently large circle of potential buyers and users exists for the surveyed property and, consequently, the sustainable profitability of the property is assured on account of its capability to be used for various purposes and its adequate usability by third parties. The most important valuation parameters and assumptions made must be stated and explained in a readily comprehensible manner. For smaller mortgages not exceeding 400.000 Euro, there are some simplifications please refer to 1.3(c).

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
   Please refer to 1.3(a)

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
   Art. 24 of the Directive on the Determination of the Mortgage Lending Value permits a simplification of the valuation process for the valuation of residential properties when the loan amount to be secured by the property (land charge) including all previous encumbrances does not exceed 400.000 Euro. The valuation report may take a simplified format, the person carrying out the valuation must be qualified for the property to be valued and there are exceptions from the requirements to inspect a property.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
   In Germany, there is no legal framework on the use of AVMs. However, a 'best practice ruling' of the German Financial Supervisory Authority (BaFin) stipulates that for mortgage origination AVMs may only be used if they comply with all requirements for valuation reports. Hence, AVMs are only permitted as an ancillary tool for valuers. More precisely, AVMs must provide the option of a manual adjustment of individual valuation data and thus the final result; ultimately it is the user of the program who is responsible for the result of the valuation and not the valuation program, which provides value suggestions, but does not replace expert knowledge.

Valuation programs for Pfandbrief banks must comply with the specific requirements stipulated by the regulation on the Determination of the Mortgage Lending Value.

b) For what purpose are AVMs employed in your Member State?
   - Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
   - Mortgage Origination & others

   AVMs help to increase the quality of the valuation in the context of standardised credit business for private customers. In Germany, AVMs are used for the valuation of standardised residential properties for the following purposes: portfolio valuations, mortgage origination, remortgaging, modernisation and renovation. For mortgage origination, AVMs can only be used if they comply with all requirements for valuation reports. Therefore, they are a key part of the mortgage origination process, but they always need to be valuer assisted.

   AVMs are generally not used for monitoring purposes. However, should the monitoring demonstrate a need for revaluation, AVMs could be used.

c) Do you foresee an increase in the future use of AVMs?
   Yes, about 60% of standardised residential properties are already valued with the support of AVM models. The increased share of AVM use is explained by cost pressure and rationalisation of processes within the German banking industry, as well as by the new banking supervisory regulation raising the need for reliable real estate market information.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
   FinTech and increased property data availability will further promote automatisation of valuation processes.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
   Not relevant at the time of writing.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
   The requirement of professional competence of Article 19(2) of the MCD has been transposed into German law by § 505c BGB (German Civil Code) and §18a KWG (German Banking Act). Both provisions require credit institutions to retain professionally competent valuers for the valuation of residential real estate. However, the profession of valuer is not protected by law, nor is it State licensed, but different quality securing mechanisms exist such as appointments of valuers by chambers of commerce, courts or certification bodies.

   For lending purposes, Art 16 (1) of the Pfandbrief Act requires a valuer to have the requisite professional experience and knowledge in order to carry out Mortgage Lending Value assessments. The requirements are laid down in more detail in Article 6 of the Directive on the Determination of the Mortgage Lending Value. It stipulates: "The valuer must, in respect of his vocational training and professional activity, possess special knowledge and experience in the field of property valuation; persons who have been appointed or certified by a government body, a state-approved body or a body accredited according to the standard DIN EN ISO/IEC 17024 as appraiser or valuer for the valuation of properties are assumed to possess such qualifications. When selecting the valuer the Pfandbrief bank must satisfy itself that, in addition to many years of professional experience in property valuation, the valuer has the knowledge that is needed specifically to prepare a Mortgage Lending Value assessment, in particular of the respective property market and type of property."

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
   There are basically two main qualification tools: Valuers are considered qualified after they have been licensed by chambers of commerce or certified by certification bodies in accordance with DIN EN45013/ISO 17024. In 1996, the Association of German Mortgage Banks founded a certification company (HypZert GmbH) for the special sector of determining Mortgage Lending Values in which all other associations of the banking industry meanwhile participated.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
   § 505c of the German Civil Code, § 18a of the German Banking Act and Article 16 par. 1 and 2 of the Pfandbrief Act address the independence of valuers. These pieces of legislation are complemented for Mortgage Lending Value valuations by the Directive on the Determination of the Mortgage Lending Value. Its Article 7 stipulates that the valuer must not be involved either in the loan acquisition and loan decision-making process or in the brokering, sale or letting of property. The valuer in question is, within the scope of the Pfandbrief bank's structural organisation, accountable only to the executive management or is solely part of a unit of valuers which reports directly to the executive management.

   Statutory provisions of the new minimum requirements for risk management also include rules on the separation of conflicting activities within credit institutions. Furthermore, the professional principles of certifying bodies and professional associations include principles regarding the independence of valuers.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
   Not applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
   In principle, there are no differences between residential and commercial properties. An exception applies to small residential mortgage loan amounts below 400.000.- Euro. Please refer to 1.3(c)

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
   No, the use of the title of valuer is not protected in Germany.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
   Through appointment by chambers of commerce and certification. Please refer to 2.1(b)

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?

- If yes, do credit institutions have the possibility to employ both internal and external valuers?

Mortgage lenders employ both internal and external valuers. For Mortgage Lending Value valuations, the Directive on the Determination of the Mortgage Lending Value provides rules for both approaches (Article 6 and 7).

- Is one type of valuer typically employed more frequently than the other?

Each lender decides on its own on the basis of economic criteria.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?

Not applicable.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:

- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

There is no legislation in place requiring valuers to have professional indemnity coverage or lenders to use only valuers covered by this type of insurance. However, orders e.g. "Sachverständigenordnung" from the Chamber of Commerce, highly recommend that valuers have appropriate insurance coverage. In the absence of legal or professional requirements, contractors can ask for a confirmation of adequate indemnity insurance as a condition for the assignment (provision of a copy of the certificate of insurance or contractual agreement). In practice, valuation applications are only accepted when the valuer can prove insurance covering the potential loss for the applicant (e.g. a certain percentage of the property value).

b) If there are no such requirements, how are lenders/valuers covered for the risk?

- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/ rules and the responsibility of the valuer.

There are no specific rules on the responsibility of valuers in place; the private valuer is liable according to §§ 633 ff. BGB (German Civil Code) (general rules for work and labour contracts).

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?

In Germany, in line with the CRR requirements the LTV limit for the preferential treatment of residential property is 80% of the Mortgage Lending Value or of the Market Value of the property, the LTV limit for commercial property is 60% of the Mortgage Lending Value or 50% of the Market Value of the property. Both LTVs are soft limits, i.e. when the loan exceeds the 50% 60% or 80% limit, the part of the loan up to 50% 60% or 80% LTV remains eligible for the preferential treatment.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?

There are no criteria about significant market changes in place. Lenders are expected to respond to such changes in the case of major economic market disruptions which did not occur during the previous decades. The market fluctuation measurement tool of the German Banking Industry (Marktwertschwankungskonzept) applies. Please refer III(c).

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?

There are no legal or statutory rules in place. The statistical approaches recognised by the supervisory authority include, in particular, the German Banking Industry's (DK) market fluctuation concept. This has already been established as best practice for commercial properties since 2001 and for residential properties since 2007 for the purposes of the monitoring and review requirements.

Due to the fact that this tool is very rudimental, the national supervisory authority requires further – more detailed – analysis of property markets. Therefore, a number of other statistical approaches have been developed over the past few years to monitor and review values. In addition to banks' individual models, which are strongly based on the relevant loan portfolio, there are cross-bank products in the market. An example is vdpResearch GmbH's "Immobilien Monitoring" (Property Monitoring), which analyses market trends at postcode level. It was established in 2012 and is used by more than 90% of German banks today.

The DK market fluctuation concept as well as the property monitoring of vdpResearch cover residential and commercial property markets and data is published on a yearly basis for a time period of one, two and three years. The main objective of these tools is the identification of areas and types of property with significant changes in the property market that require further internal review and/or revaluation of individual properties.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.

In the market fluctuation concept, the German Banking Industry records market trends for commercial real estate (office, retail, warehousing and hotels), as well as residential property (condominium apartments and single- and multiple-family houses). Two different methods of data collection are used: firstly, experts from member banks of associations represented in the German Banking Industry carry out annual revaluations of a synthetic portfolio and/ or give an estimation of price developments; and secondly, the vdp transaction database is analysed. Value fluctuations in selected indicator cities as well as in four metropolitan regions in Germany are assessed and reported to the national banking authority.

The postcode-level-tool provided by vdpResearch GmbH as well as the data provided by the Association of German Pfandbrief Banks for the market fluctuation concept are based on an analysis of transaction data, delivered by approximately 560 banks in Germany. The vdp transaction database includes more than three million data sets, enlarged by approximately 60.000 data sets each quarter of the year. The analysis is founded on hedonic models.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?

In the case of a review of a property valuation, the competent authority requires the lender to assess if the initial valuation's underlying assumptions are still applicable. A new property valuation must be carried out if these assumptions are no longer relevant or no longer apply.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.

The examination of the underlying assumptions is carried out by a plausibility assessment.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
The regulatory authority is expected to consider a material decline for commercial property at a level of more than 10% (within three years) and for residential property of more than 20% (within a period of three years).

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No data requirements are set out. In addition to the above-mentioned market fluctuation measurement tool, a certain number of statistical concepts are elaborated by associations or lenders to support monitoring activities. One of them is the property transactions data bank of the Association of German Pfandbrief Banks (vdp). On the basis of hedonic methods this database evaluates transactions of participating member institutions that result in an analysis of the fluctuation of prices in regional and sectorial markets.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
No, both Market Value and Mortgage Lending Value approaches are regulated by statutory law, for more information please refer to 1.1(a)

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Valuation rules are provided by the national covered bond legislation (Article 16 Pfandbrief Act and underlying Directive on the Determination of the Mortgage Lending Value).

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Mortgage Lending Value.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
No.

d) Are there specific qualification and independence requirements for valuers?
There are detailed qualification and independence requirements for valuers contained in the covered bond legislation (Articles 6 and 7 BelWertV)

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
In principle, there are no differences in valuation rules with the exception of domestic residential mortgage loans below 400.000.-Euro for which there is a dispensation from the requirement of a full valuation report, the assessing person must be sufficiently trained and qualified and an inspection of the property can be discarded under certain strict requirements (Article 24 BelWertV).

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Yes, there are explicit monitoring and revaluation requirements in the covered bond legislation (Article 26 BelWertV).

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
LTV limits are 60% of the Mortgage Lending Value for both residential and commercial property.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
No, bondholders do not get the benefit of the exceeding portion of the loan.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
No, the LTV cap is conceived as a soft limit.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
There is no such LTV cap.

k) Is there any additional LTV limit on a portfolio basis?
There is no such additional LTV limit.

Greece

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

General comments: Until 2013, the only accredited body for valuations in Greece was the Body of Chartered Surveyors. Under Law 4152/2013, the body was abolished and a new term, this of the "certified valuer" was introduced, along with a description of the professional qualifications required, the process of registration, the valuation fields covered and the valuation standards that are acceptable.

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
Certified valuers are required to comply with European or International valuation standards and the Code of Conduct, as initially presented in Law 4152/2013- Article 41.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
There is no specific legal framework for the valuation of commercial properties, for lending purposes.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Appropriate valuation standards are used, depending on the property use and characteristics.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
   - Residential
   - Commercial

   The valuation basis typically used for lending purposes is Market Value for both residential and commercial properties[1].

b) Based on what definition? Please provide the definition and reference to where it can be located.
Market Value, is defined according to European and International standards: "Market Value is the estimated amount for which a property should exchange based on the date of valuation between a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Valuation reports usually also comprise the calculated Administrative Value, used only for taxation purposes, which does not affect the estimated Market Value.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
Typically, for residential property the comparison method is used, whereas for commercial property the investment or income capitalisation methods along with the comparison method are used. Other methods may be used depending on the property use and characteristics (residual method etc.).

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Minimum requirements are set by the obligation of certified valuers to comply with international or European standards in valuing and thus in reporting.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
Valuation reports typically state the purpose of the valuation, they present the location characteristics, the property's technical and quality characteristics and state the basis of value, the valuation date, the extent of the investigation, the nature and source of information – comparable and the special assumptions made. Valuation reports are usually accompanied by photos and maps.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
In the case of commercial properties valuations may comprise more detailed financial information or more detailed market and competition analysis, as well as assumptions for the future. However, there is no prescribed form.

[1] Older practices, for the appraisal of commercial property – other than office – based on Depreciated Replacement Cost, have been eliminated.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
No, there are no rules/guidance on the use of AVMs. Banks may have their own internal guidelines.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

Internally, banks may be using AVMs for portfolio valuation and revaluation purposes, risk management etc.

c) Do you foresee an increase in the future use of AVMs?
Yes, this is probable.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Geographic Information System (GIS) combined with spatial econometrics.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
- Publication of residential and commercial property indices by the Bank of Greece.
- Property valuers can be certified.
- Cadastral record is progressing, albeit at a slower than expected pace.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
Both internal and external valuers conducting property valuations on behalf of the Credit Institutions must be professionally competent, registered in the Certified Valuers Record (Law 4152/2013) and independent of the credit approval process. Certified valuers are higher education graduates, with a minimum two-year proven relevant professional experience and are either already certified by an international accredited body or registered as a professional valuer in any EU country (or third country according to the principle of reciprocity) or have passed the national certification exams.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
As aforementioned, both internal and external valuers conducting property valuations on behalf of credit institutions must be registered in the Certified Valuers Record (Law 4152/2013) follow European /international valuation standards and be independent of the credit approval process, in order to be able to provide an unbiased and objective valuation. The valuation report is filed by the credit institution and is available for future reference.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for both cases.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
Under Law 4152/2013, a certified valuer is a valuer who is registered in the Certified Valuers Record of the Ministry of Finance and fulfils all set requirements. However, the title of valuer is not protected.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Valuations conducted for lending purposes are assigned to certified valuers by the credit institutions.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

No.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Both internal and external valuers are used provided that they are registered as "certified valuers"

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

No.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

Information not available.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
The maximum eligible asset LTV ratios for residential and commercial real estate are 80% and 60% in line with the CRR requirements (Articles 124-126).

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
No.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
No.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
No.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
Bank of Greece implements fully the CRR provisions regarding monitoring, revaluation, insurance and valuer's independence (Articles 208 & 229(1)).

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Information not available.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
Information not available.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Loans secured by residential mortgages are required to have a loan to value (LTV) ratio of 80%, whereas loans secured by mortgages over commercial properties and ships are required to have an LTV ratio of 60%. Loans with a higher LTV ratio may be included in the cover pool, but they are taken into account for the calculation of the statutory tests described below only up to the amount indicated by the LTV ratio. The valuation of properties must be performed by an independent valuer at or below the market value and must be repeated every year in relation to commercial properties and every three years in relation to residential properties (Article 208 of Regulation 575/2013).[2]

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Information not available.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Information not available

d) Are there specific qualification and independence requirements for valuers?
Information not available.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Information not available.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Have no knowledge hereof.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Have no knowledge hereof.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
Yes.[3]

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
In relation to residential and commercial mortgages only the amount exceeding the LTV cap is non-eligible, whereas in relation to shipping loans exceeding the LTV cap (60%), the entire loan appears to be ineligible. Thus, by way of example a loan of 900.000 Euros secured through a residential mortgage over a property valued at 1.000.000 Euros may be included in the cover pool but will be deemed for the purposes of the calculation of the statutory tests to be equal to 800.000 Euros.[4]

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
While the relevant provisions are not explicit on this point, it would appear that shipping loans that cease to be eligible, would no longer be taken into account in the calculation of the cover pool. However, to the extent that non-eligible assets are not removed from the cover pool, investors will have the benefit of such assets.[5]

k) Is there any additional LTV limit on a portfolio basis?
No.[6]

[2] Source: ECBC European Covered Bond Fact Book available here: https://hypo.org/ecbc/publications/fact-book/.
[3,4,5,6] Source: ECBC Covered Bond Comparative Database available here: http://www.ecbc.eu/.

Hungary

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
The activity of mortgage banks in general is regulated by act XXX. of 1997 on Mortgage Loan Companies and on Mortgage Bonds.[1] The valuation operation is regulated by a decree issued by the Ministry of Finance (25/1997. (VIII. 1.) PM decree), which determines all valuation processes for both residential and non-residential properties (except agricultural land).[2] Additionally, all Hungarian mortgage banks must have an internal regulation in place to determine collateral value, which must be approved by the National Bank of Hungary. Moreover, the National Bank of Hungary has issued a recommendation (No. 4/2014) to foster the mitigation of property market risks facing financial institutions.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
In addition to the information provided above, it should be noted that agricultural land valuation should be carried out according to the guidelines of the decree issued by the Ministry of Agriculture (54/1997. (VIII. 1.), which determines the framework of land valuations (including lands, fields, meadows, pastures, orchards, forests, fishing lakes and lakes).[3] Additionally, all Hungarian Mortgage Banks must have their own internal regulation on determining collateral value, which as mentioned above, must be approved by the National Bank of Hungary.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
The legal framework is specified above.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
   - Residential: Market Value, Mortgage Lending Value
   - Commercial: Market Value, Mortgage Lending Value

b) Based on what definition? Please provide the definition and reference to where it can be located.
The determination of a property value is achieved by using the Market Value approach. The Mortgage Lending Value is determined from the Market Value of the real estate.

Market Value: The Market Value is defined as the price which might be attained as of the date on which the valuation was processed, in the context of a business relationship and taking into account all legal facts, real qualities, other relationships and location of the real estate or another subject of the valuation, regardless of non-standard or personal relationships.
Influences from exceptional circumstances of the market, personal relationships of the seller or of the purchaser or the influence of special popularity are not reflected in the Market Value. Extraordinary circumstances are deemed to be e.g. condition of distress of the seller or purchaser, or consequences of natural or other calamities. Personal relationships are understood to be, in particular, property relationships, family relationships or other personal relationships between the seller and purchaser. A special popularity is understood to be a special value attached to the property or service in light of the personal relationships to it.

Market Value is determined by a valuer making a prudent assessment of the property. Prudent assessment requires the following approaches:
- Review of the future marketability of the property;
- Consideration of the long term sustainable aspects of the property only;
- Consideration of normal and local market conditions;
- Highest and best use principal is not applicable (only the current use of the property may be considered);
- Use of the cost approach as a control value only;
- If possible, application of all three valuation approaches (market, income and cost approach)*

* In the case of residential properties – condominium flats – it is possible to determine and accept the value by using only one method (i.e. Comparison Method).

Property professionals do not have information about the financial arrangements or about the borrower. Consequently, the valuer does not take into account risks such as borrower risks, financial risks etc.

Mortgage Lending Value (MLV): The definition of MLV is prescribed in a decree of the Ministry of Finance 25/1997 for non-agricultural real estate and in the decree of Ministry of Agriculture 54/1997 for agricultural land. In general, the Mortgage Lending Value may not exceed the usual price or market value of the real estate being assessed.
The Mortgage Lending Value is the property value gained via a careful assessment. During the calculation, the specific risks originating from the long-term loans disbursed by mortgage banks and such features and yields of the property are taken into consideration that in the future any owner might face.

[1] Source: https://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=99700030.TV.
[2] Source: http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=99700025.PM.
[3] Source : http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=99700054.FM.

When determining the Mortgage Lending Value, in addition to the risks routinely analysed, special attention must be paid to the following:

- Risks related to the long-term stability of the value of the property;
- Risks due to the unreliability of data regarding market value;
- Risks due to the unreliability of other data;
- Effects related to the enforcement of the claim (protection, sales costs, preservation).

In order to mitigate the aforementioned risks:

- a long-term forecast should be prepared (at least for the loan period) regarding the market environment, and the use and condition of the property; only permanently valid factors may be taken into account;
- the use of the property valid only at the time of preparing the valuation may be taken into account rather than the potential alternative use as result of a possible development, except for properties on building sites, which have not yet been constructed or completed;
- If the circumstances refer to a right not registered in the land registry or an unrecorded fact, the situation must be clarified by contacting the relevant authority or examining the contract in the case of a contract-based right;
- In the interests of the reliability of the different market data, for all the applied market data including the sales-purchase comparison data, leasing data and building/construction costs at least 3 (5 recommended) comparative sets of data should be provided and documented in a way that they can be accountable later;
- All the data used in the valuation report must be identified in an accountable manner, and the accuracy of this data must be documented and assessed.

Source: decree issued by Ministry of Finance (25/1997. (VIII. 1.) PM decree)[4]

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Mainly only the Market Value and the Mortgage Lending Value are used. There are special cases, usually not for or not only for lending purposes, where other type of values needs to be determined as well. These value categories are listed in European Valuation Standards (EVS) and include Liquidation Value, Special Value, Technical Cost value, Rental Value, etc. The number of such cases is negligible; mostly these reports are prepared by special request from customers or clients.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
Residential Properties:
- Comparison method;
- Investment/Income method;
- Depreciated replacement cost method.

Commercial Properties:
- Comparison method;
- Depreciated replacement cost method;
- Investment/Income method.

Special conditions for determining the mortgage lending value:

- In the interests of reliability of market data, the valuer must identify or document and evaluate the data used in the valuation in an accountable way, including the sales prices, rental data (at least 3 elements, but 5 are recommended) and building costs;
- Except for properties on building sites, which have not yet been constructed or completed, only the use of the property valid only at the time of preparing the valuation may be taken into account and not the optimal/possible use(s);
- Normally valuers are not allowed to use higher correction factors at comparison approach than 30%. In exceptional cases these value-influencing correction factors may exceed 30% but should not be higher than 50% and justification is compulsory.
- In case of land with existing properties on it the Market Value must be determined in relation to the building and then adjusted in the event that the size of the land is different from the average (average of comparative data);
- When determining the yield of the property the use at the time of the valuation must be taken into account even though it is not necessarily the most economical and best use; no higher rental charges can be projected than those which are determined in the contract even though the market might accept the higher rates;
- The cost-based method should primarily be used for control purposes. It can only be applied for residential real estate buildings and for supplementary buildings of minor importance, covered and agricultural facilities; it can be used for buildings under construction if it has already been proved in some other way that the construction is economical;
- In determining the Mortgage Lending Value with the help of the cost-based method, the rebuilding cost can only be used in exceptional cases, otherwise the valuer must use the replacement cost;
- In the case of the cost-based method, the execution replacement cost satisfying the average requirement level can be accepted;
- In the event that the environmental amortisation item exceeds 20%, the cost-based method cannot be applied to determine the Mortgage Lending Value due to the high risk of significant estimation inaccuracy;
- A long-term forecast must be prepared relating to the economic and market situation and the use and condition of the property. Therefore, only those parameters that are expected to be permanent can be taken into account;
- All the data used in the valuation report must be identified in an accountable manner, and the accuracy of this data must be documented and evaluated.

Real estate qualifying as agricultural land:

- In the case of the sales comparison approach, only data compared to which the total value of the value influencing factors does not exceed 20% can be used;
- In the interests of the reliability of the market data, the valuer must indicate and document at least 3 pieces (5 recommended) of comparative data for all the applied market data in an accountable manner; all the data used in the valuation report and the sources of this data must be indicated in an accountable way; the accuracy of the data must also be evaluated;
- The use at the time of the valuation must be taken into account even though it is not necessarily the most economical and best use; no higher rental charges can be projected than those which are determined in the contract even though the market might accept the higher rates; rental charges that are higher than the market level fixed in the contract can only be taken into account for the period of the contract;
- A long-term forecast must be prepared relating to the economic and market situation and the use and condition of the property. Therefore, only those parameters that are expected to be permanent can be taken into account;
- The valuer cannot take into consideration the risks of the credit deal, namely the risks of the credited activity and the risks entailed related to the borrower's personal circumstances;

Changes in revaluation rules:

- Further to the decision of the National Bank of Hungary (supervisory body of Hungarian bank sector) mortgage banks were required to change their previous procedures for revaluing non-residential properties;

[4] Source: http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=99700025.PM.

- Residential real estate and agricultural land can be revalued using statistical methods (indexes);
  - For all other cases, a hybrid method is to be used, which is actually a combination of regular and desktop methods. Valuers make the site visit, take photos, refresh the documentation (if needed) and prepare an actual market analysis. Based on these experiences a simplified report should be prepared using only the market comparison method. If this is not satisfactory or more accurate calculation is needed the supervisors of the bank can complete the report with other calculations (for example the discounted cash flow (DCF) method).

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.

The valuation report prepared for mortgage lending purposes should contain the following:

- Name of principal;
- The subject of the valuation;
- The identification of the property, the legal title;
- The exact task of the valuer (determining the Market Value and Mortgage Lending Value for bank loans);
- The use of the property (used by the owner, rented out, kept for investment purposes);
- The valuation methodology or methodologies used and the related justification;
- The proposed Mortgage Lending Value based on the established market value;
- The date of the site visit and the date of preparation of the report;
- The rights relating to the use of the valuation report (not to be provided…);
- The documentation and identification of the sources of the data used;
- The author and the participants in compiling the material, and the proof of their professional certification;
- The authenticated or electronic signature of the valuer to validate the established value;
- A description of the property according to the land registry and in real terms, the description of construction authority provisions, building rules and their expected changes;
- The geographical situation, demography, economy of the environment in which the property is located and the description of other important issues from the point of view of the valuation;
- A description of the economic environment in which the property is located that determines the current use of the property, its value and the future possibilities;
- A description of the real estate market situation, including factual data;
- A description of the immediate environment in which the property is located, including the situation of the property in the settlement network and its situation within the settlement, its accessibility, public transport connections, infrastructure;
- A description of the use of the property, including the past, present and future users, the way in which the property is used, the intensity of use and the related financial consequences;
- A description of the land, including the size, shape, relief, greenery, available public utilities, the extent to which it has been built on, the proportion of the land that can be built on, the buildings and features;
- A description of the buildings, applying the "from far to close" principle, a detailed description of the primary and secondary building structures, and a description of their condition;
- A definition of the applied measures to ensure comparability (areas: gross, net, useful…);
- Any protections of the property (either monumental or natural protection);
- In the valuation report the presumptions must be listed based on which the valuation is valid. The steps and calculations of the valuation must be described in detail, in a straightforward and verifiable manner in the valuation report.

The valuation report must be supported by annexes:

- A copy of the authenticated title deed not older than 90 days before determining the Mortgage Lending Value in accordance with national and banking provisions;
- A copy of the original land registry map and an extract of the regulation plan if this is necessary for the identification of the property or for the valuation procedure;
- The technical drawings of the property;
- Photos of the property, inside and outside;
- Contracts and other documents that are important to understand the legal situation of the property, including documents about mortgages;
- Any other fact or data considered during the valuation.

Supporting Documents for the compilation and verification of the external Valuation.

In particular, the following supporting documents are required:

- A copy of the cadastral map which corresponds to the extract from the Real Estate Register or is completed with a relevant geometrical plan;
- Extract(s) from the Real Estate Register relating to any and all relevant units, buildings and plots of land (including those owned by another owner upon separated ownership of the construction and the plot of land), not older than 3 months;
- Purchase contract/acquisition title;
- Demolition decisions / zone decisions / construction permits / use permit decisions / permits for change of use;
- Construction plans – sections, designs, views;
- Technical reports / real estate description;
- Declaration of individual ownership right (in case of an apartment ownership-structure);
- Contracts for work, annexes included / time schedule / cost budget;
- Lease Contracts / survey of rents;
- Contracts for the establishment of the rights corresponding to simplifications;
- Contracts for the establishment of a pre-emptive right.

The valuer shall assign the external valuation. Processed and registered valuations are sent back to the Risk Management of the Corporate, Retail and Small Business Division. Verification of these external valuations by the Valuation Desk is limited to 2 banking days after having received the complete supporting documents. The ordering of progress reports, which are being processed, is performed in a similar manner.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?

The content of valuation for lending purposes is strictly prescribed by the regulator and mortgage banks as well.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.

The used forms and methodologies are based on the same principles. Of course, there are refinements and particular calculations for special cases, such as agricultural factories, petrol stations, lidos, spas, hotels, offices, development sites, etc.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
In Hungary, there are no specific rules/guidance on the use of AVMs.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are not used in Hungary at the moment.

c) Do you foresee an increase in the future use of AVMs?
Only if a reliable database with suitable content is available in the future.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Some banks have introduced indices methods for quality control purposes and for monitoring values in the context of the CRR.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
There are grassroots initiatives to bring the methodology for agricultural land valuation up to date. The main aspect of the changes, in addition to determining the real quality of the land as a basis of value, would be an estimation taking into consideration the different national and EU subsidies on the income side. These types of income have quite a significant influence on prices.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
Valuers conducting valuations on a commercial basis must have accredited qualifications (real-estate and asset valuer (advanced qualification)) and should be included in the official, territorially competent register. The valuer license (based on the decree issued by the Ministry of Internal Affairs in 1995) is not conditional on a diploma/university degree; however real estate postgraduate education has existed in Hungary since 1994. The license confers the legal ability to undertake professional assignments, such as carrying out valuations and signing the valuation report. Banks normally appoint professionals (companies) holding university degrees (degree of engineering, economy, agriculture, law), who are members of one of the recognised national or international professional bodies (The European Group of Valuers' Association (TEGoVA), Royal Institution of Chartered Surveyors (RICS), HypZert, Magyar Ingatlanszövetség (MAISZ), Épületszigetelők, Tetőfedők és Bádogosok Magyarországi Szövetsége (ÉMSZ) etc.). There is no general certification body, therefore valuers normally follow the codes and guidelines of their professional bodies.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
There is no real estate chamber based on the individual membership of property professionals. This would enable the property industry to regulate itself according to the market instead of waiting for legislation to come through. This could also lead to the establishment of a qualification, accredited schools and a code of ethics. On the other hand, Hungary is more advanced than some of its Western neighbours with regards to valuation. For example, RICS was established in Hungary in the early 1990s when it was not present in some Western European countries.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
In Hungary recommendation No. 4/2014 issued by the National Bank of Hungary seeks to mitigate property market risks facing financial institutions. Point 7 of the recommendation describes how the independence of the valuer from the credit underwriting process should be ensured. Special attention should be paid to the existence of professional qualifications, ability, experience and avoiding any conflicts of interest. All professionals should be included in the official register of Real-Estate and Asset Valuers (advanced qualification). The selection and activity of valuers should be supervised by the bank according to its described internal regulations of procedure.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Sufficient independence is prescribed as described above. (Real-estate agents (basic qualification) are only allowed to value properties they are handling but these valuation reports may not be used for lending purposes.)
In carrying out his/her tasks, the valuer shall not have any conflict of interests (i.e. any direct/indirect interest in the result of the valuation) and shall be independent of any party interested in the outcome of the valuation. Coercion, improper compensation schemes and other inappropriate influence on appraisers shall be sanctioned by the bank.

Conflict of interest / lack of independence may, for example, occur when:
- The appraiser is responsible or directly linked to the individual/department in the bank responsible for originating or renewing exposures;
- There is incentive steering (more business -> more bonus) in the valuer's compensation scheme;
- The valuer is or has been involved in the real estate transactions on the property being valued (e.g. in terms of real estate brokerage);
- The valuer, the valuer's partners, co-directors or close family is a related party of either the owner of the real estate property or the related loan applicant;
- The valuer has contractual engagements or another professional relationship with the owner of the real estate property / the related loan applicant during the valuation process;
- The bank has relevant business relationships with the valuer, the valuer's partners, co-directors or close family, other than the ones deriving from the valuation activity;
- The valuer is a company, either controlled directly or indirectly or significantly influenced by bank representatives, also appointed as members of the company's management body (or the body responsible for strategic supervision) who are also responsible for originating exposures or renewals.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for all valuers.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
There are no restrictions on the use of 'valuer' or 'real estate expert' titles in Hungary, only for those, who carry out valuations on a commercial basis.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Valuers who carry out valuations on a commercial basis must have accredited qualifications (real-estate and asset valuer (advanced qualification) and should be included in the official, territorially competent register).

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
Yes, valuers who carry out valuations on a commercial basis must have accredited qualifications (real-estate and asset valuer (advanced qualification) and should be included in the official, territorially competent register).
- If yes, do credit institutions have the possibility to employ both internal and external valuers?

Valuations are carried out by both internal and external valuers. Practically, external valuers are appointed by lenders and then controlled by the mortgage bank's internal valuers (based on the contract between the mortgage bank and commercial banks entitled to originate mortgages). Banks are therefore able to employ professionals as internal or external employees as well.
- Is one type of valuer typically employed more frequently than the other?

Typically, most Hungarian mortgage banks operate a subcontracting partnership with valuers. Bank employees (highly educated and qualified internal valuers) supervise and approve the work of subcontractors and prepare more complex valuations that are generally considered to be of a higher quality than external valuations. Valuations of high value real estate are usually carried out by qualified internal staff.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Typically, most Hungarian mortgage banks operate subcontracting partnership with valuers.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

In Hungary, valuers typically have professional indemnity insurance (quite often in commercial banks and compulsory in mortgage banks). As far as Hungarian mortgage banks are concerned, the standard policy is that real estate which serves as security for a mortgage loan shall be insured against damage. Another standard is that the client pledges the receivables from real estate insurance as a security for the mortgage loan.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

The existence of contracted valuer's insurance is a basic requirement for mortgage banks.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
The maximum eligible asset LTV ratios for residential real estate is 70% and for commercial real estate is 60%.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
Stricter rules for preparing re-valuations have recently been issued by the financial regulator, according to which a hybrid method is to be used for non-residential properties (detailed in Section 1). There is no provision regarding "more frequent monitoring where the market is subject to significant changes" in the context of covered bond legislation. Covered bond issuing institutions (designated credit institutions) are required to comply with the (CRR) and are subject to the supervision of the financial regulator with respect to their CRR compliance generally.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
There are no specific criteria in this respect.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
There is no common national regulation on applied methodology. The CRR serves as guidance.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
No, there is no such rule.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
For residential property, there is the possibility of making use of indexes to carry out a statistical re-valuation. This is mandatory every three years.
For commercial property, after approving a full content valuation, a hybrid method is used for re-valuation. This can be done every two years (but should be done every year). After two years, a full valuation, based on a mixture of regular and desktop methods, is required once again. The valuer conducts a site visit, takes photos, refreshes the documentation (if needed) and prepares an actual market analysis. Based on these experiences a simplified report should be prepared using only the market comparison method. If this is not satisfactory or more accurate calculations are needed the supervisors of the bank can complete the report with other calculations (for example DCF method).
Real estate values must be reviewed regularly: at least once a year for non-residential property and once every three years for residential property. For the review of the value of residential property and the identification of those to be revalued, statistical methods may also be applied. The value of real estate collateral not qualifying as residential property shall be reviewed by the Valuation

Desk of the bank, on the basis of the data sheet filled in by the owner of the real estate serving as collateral. The revaluation of all non-residential property shall take place at least once every year in a desk-based manner, and every three years with an on-site inspection. In case of residential property, an on-site inspection must be carried out if the amount of the loan and the value of the collateral exceeds EUR 3 million.

A more frequent review is necessary if the market is exposed to significantly changing conditions. If there is any information indicating that the value of any real estate may have considerably declined compared to the general market price, the value of the given item shall be reviewed immediately. It is the Valuation Desk's competence to define parameters for properties to be revalued out of turn. Processes and responsibilities related to real estate revaluation and the review of real estate values are specified in the respective regulations.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No, there are no such criteria. The Hungarian financial regulator has not at the time of writing provided specific guidance on either statistical methods or data requirements for monitoring property values.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No, there are no such requirements.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
The definitions of Market Value and Mortgage Lending Value are prescribed by decree 25/1997 of the Ministry of Finance for non-agricultural real estate and decree 54/1997 of the Ministry of Agriculture for agricultural land. In general, the Mortgage Lending Value may not exceed the usual price or the Market Value of the real estate being assessed.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
National covered bond legislation provides for special rules on cover asset valuation including market value- and Mortgage Lending Value based valuation. Commercial banks have to apply the provisions of the covered bond law on Market Value based valuation.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Mortgage Lending Value.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Not applicable.

d) Are there specific qualification and independence requirements for valuers?
Special qualification and registration rules apply to valuers.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Not available.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
There are no special requirements, however the bank considers the CRR requirements in this respect.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Residential real estate with an LTV of up to 70% can be included in the cover pool, for other kinds of real estate, the LTV limit is 60% on a Mortgage Lending Value basis.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
In case of insolvency of the mortgage bank, yes.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
A hard LTV limit applies – mortgage loans with an LTV of over 100%are not eligible for inclusion in the cover pool.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
No.

k) Is there any additional LTV limit on a portfolio basis?
The whole portfolio based LTV limit cannot exceed 70%.

Ireland

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
Article 19 of MCD was transposed into Irish law by way of Statutory Instrument (SI142 2016) which includes acceptance of international valuation standards including the 'Blue Book' (The European Group of Valuers' Associations (TEGoVA)) and 'Red Book' (Royal Institution of Chartered Surveyors (RICS) Professional Valuation Standards).

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
The accepted practice is to use appropriately competent valuers compliant with RICS or TEGoVA standards. The framework for commercial property is a guideline and is contained in the Central Bank of Ireland (CBI) publication of December 2012 'Valuation Process in the Banking Crisis – Lessons learned – Guiding the future'. In the publication, reference is made to both Red and Blue book standards which are to be used at all times.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
The valuation standards accepted in Ireland are international standards produced by RICS and TEGoVA. Valuers are self-regulated to the standards applied by the professional body to which they are members.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
   - Residential: Open market value
   - Commercial: Open market value

b) Based on what definition? Please provide the definition and reference to where it can be located.
The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.[1]

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
The Open Market Value method is always used where possible. Only in some instances the use of special assumptions or 'Fair Value or 'Marriage Value' may be used.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
Comparison, residential valuation, profits and discounted cash flow may be used.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Minimum requirements include ensuring terms of engagement, inspections and investigations, valuation reports, bases of value, assumptions and special assumptions.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The valuation report form is prescribed by the lender.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The minimum requirements are set out for both commercial and residential property.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
No.

b) For what purpose are AVMs employed in your Member State?
   - Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
   - Mortgage Origination & others

Have no knowledge hereof.

[1] RICS and TEGoVA.

c) Do you foresee an increase in the future use of AVMs?
Have no knowledge hereof.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Have no knowledge hereof.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
The standards used in the Irish market are internationally accepted and evolve over time following consultation and engagement. This ensures that the standards applied are to the latest best practice identified and transparent.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
The following text is included in Irish legislation following transposition of the MCD on 24 March 2016: A creditor shall use reliable standards, such as those developed by the International Valuation Standards Council, the European Group of Valuers' Associations or the Royal Institution of Chartered Surveyors, when carrying out a property valuation of residential immovable property for credit purposes.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
The valuer must be a member of a professional body and apply the standards of that organisation when undertaking valuations.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
In accordance with the legislation, 'A creditor shall ensure that internal and external valuers 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 shall be kept by the creditor'. In addition, the professional standards applied by the valuer membership organisation may include a proactive quality assurance mechanism to audit members and/or guidelines regarding potential conflicts of interest.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The minimum requirements set out in the 'Red Book' (RICS) are similar for both residential and commercial valuations. For valuations completed under the 'Blue Book' (TEGoVA) different standards apply.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
No the title is not protected.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Lenders have established a panel of valuers for their firm and each member of the panel must have a recognised professional qualification to undertake valuations in accordance with industry standards.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
   - If yes, do credit institutions have the possibility to employ both internal and external valuers?
     Yes, however, CBI guidelines propose that all valuations should be completed by external valuers. Internal valuers focus on providing instruction and reviewing results.
   - Is one type of valuer typically employed more frequently than the other?
     Mostly external valuers.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Not applicable.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
   - Valuers to have professional indemnity insurance cover?
     Yes.
   - Lenders to use only valuers covered by professional indemnity insurance?
     Yes.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
   - Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.
     Not applicable.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
Residential – 90% for First Time Buyers, 80% for Second + time buyers, 70% for Investment properties.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
Annual macro prudential policy review by the CBI.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
Statistics form part of the annual review of residential property but criteria have not been provided.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
No answer provided.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
CBI guidelines propose annual review for commercial property and every three years for residential property valuations in line with the CRR requirements. The initial valuation is included within the Macro Prudential policy review process. As a result, the valid timeframe for a residential property valuation is set at four months (previously two months).

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Reviews are carried out in accordance with 'Red Book' and 'Blue Book' standards

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No such criteria have been laid down.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No such requirements have been set by the regulator.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
No such orders or guidelines have been issued by the regulator.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
They are provided by the national covered bond legislation.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
The Irish covered bond framework comprising the Asset Covered Securities Acts 2001 and 2007 (the ACS Acts) and related regulations and notices (together with the ACS Acts, the ACS legislation) requires valuation to be conducted on a prudent market valuation basis. Please refer to (e) below for further details.
Public credit assets maintained in the cover pool of a designated public credit institution are ascribed a prudent market value equal to 100% of the amount of the related public credit outstanding on the date of valuation.
A designated mortgage credit institution is first required to determine the market value of a property asset at the time of origination of the mortgage credit asset secured on it. It is market practice for such property valuations to be conducted by independent valuers. The designated mortgage credit institution is then required to calculate the prudent market value of such property asset at the time of inclusion of the related mortgage credit asset in the cover pool and also at such intervals (at least once per year) as may be specified by the Central Bank of Ireland (the CBI). In addition, a designated mortgage credit institution is required to calculate the prudent market value of mortgage credit assets and securitised mortgage credits included in the cover pool on a quarterly basis, or more frequently if so instructed by the cover asset monitor (the CAM), for the purposes of demonstrating compliance with the asset-liability and over-collateralisation requirements of the ACS Acts. In practice, the prudent market value of relevant property assets is calculated on a quarterly basis also as this calculation forms part of the valuation process for mortgage credit assets.
For these subsequent calculations, the designated mortgage credit institution must apply the house price index published by permanent tsb and/or the house price index published by the Irish Central Statistics Office (depending on the date of origination) to the valuation obtained at origination, with same being verified by the CAM on a monthly basis.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Not available.

d) Are there specific qualification and independence requirements for valuers?
A designated mortgage credit institution is first required to determine the market value of a property asset at the time of origination of the mortgage credit asset secured on it. It is market practice for such property valuations to be conducted by independent valuers.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Public credit assets maintained in the cover pool of a designated public credit institution are ascribed a prudent market value equal to 100% of the amount of the related public credit outstanding on the date of valuation.
A residential property's "prudent market value" is a valuation based on changes in the applicable property index. Decreases in the index are fully recognised, while increases are only partially recognised through the application of a "prudent market discount". Issuers typically set the prudent market discount at 15%, which means that 85% of any increases in the index are reflected in the "prudent market value" of a property.
Prudent market values also apply to mortgage loans and are calculated as the lesser of:

- the outstanding principal of the loan; and,
- 75% of the prudent market value of the residential property that secures the loan.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
One of the key features of the ACS legislation is the rigorous monitoring role undertaken by the CAM. The CAM is appointed by the ACS Issuer with such appointment being approved by the CBI.
There are strict eligibility requirements for CAMs. A CAM must be a body corporate or partnership, comprising personnel or partners who are members of a professional representative body. It must demonstrate to the CBI that it is experienced and competent in (i) financial risk management techniques, (ii) regulatory compliance reporting and (iii) capital markets, derivatives, and, as applicable, public credit business and mortgage credit business. The CAM must also demonstrate that it has sufficient resources at its disposal and sufficient academic or professional qualifications and experience in the financial services industry to satisfy firstly, the designated credit institution and secondly, the CBI, that it is capable of fulfilling this role. It cannot be the auditor of the ACS Issuer.
The CAM is responsible for monitoring the cover pool, the ACS Issuer's compliance with specific provisions of the ACS Acts and reporting any breaches of same

to the CBI. The CAM issues regular reports to the ACS Issuer (every 1-4 weeks) and submits a report on a quarterly basis to the CBI.

Some of the CAM's principal obligations include: ensuring that the matching requirements of the ACS Acts with respect to the cover assets and the ACS are met; ensuring that the asset eligibility requirements are met; approving any inclusion in or removal from the cover register, of a cover asset, ACS or hedge contract; checking that the level of substitution assets included in the cover pool does not exceed the prescribed percentage; and ensuring that the legislative and contractual levels of over-collateralisation are maintained.

The CBI is given statutory responsibility for supervising ACS Issuers. The CBI may, with the consent of the Minister for Finance, revoke the registration of an ACS Issuer and/or suspend its business if such ACS Issuer breaches any provision of the ACS Acts. In addition, the CBI has wide-ranging powers under the Irish Central Banking legislation to impose significant fines and administrative sanctions on ACS Issuers and/or their senior management for contraventions of the ACS Acts.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.

The maximum prudent LTV levels for mortgage credit assets included in the cover pool of a mortgage credit institution are 75% for mortgage credit assets backed by residential property and 60% for those backed by commercial property.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?

The ACS Acts prescribe a minimum over-collateralisation of ACS for designated mortgage credit institutions and designated public credit institutions of 3% calculated on a present value basis. It is also possible for ACS Issuers to commit by contract to higher minimum levels of over-collateralisation and the market practice has been for ACS Issuers to contractually commit to higher levels. The CAM is responsible for monitoring the levels of legislative and contractual over-collateralisation. Upon an ACS Issuer insolvency, ACS holders will benefit from any cover assets which make up the over-collateralisation to the extent of their claims.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.

The maximum prudent LTV levels for mortgage credit assets included in the cover pool of a mortgage credit institution are 75% for mortgage credit assets backed by residential property and 60% for those backed by commercial property. The ACS legislation does not apply hard limits.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?

Prudent LTV levels for mortgage credit assets in the cover pool can exceed the 75% threshold, however the balance of the mortgage credit above this threshold is disregarded for valuation purposes.

k) Is there any additional LTV limit on a portfolio basis?

Yes, 80%

Italy

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
Article 19 of the MCD has been transposed into Italian Banking Law (Testo Unico Bancario) by way of article 120-duodecies related to "Property valuation" which also empowers the Bank of Italy to issue a specific regulatory framework.
Bank of Italy circular no. 285 of 17 December 2013, Part I, Title IV, Chapter 3, Annex 4, transposes the CRR (where relevant) and sets up the regulatory framework applying to property valuation, including the responsibility of the bank in relation to property valuation, the requirements of parties licensed to carry out the inspection in order to recognise the property as a suitable risk mitigation instrument in with the context of prudentially holding regulatory capital. Moreover, the circular allows credit institutions to apply one of the following to property valuation: internationally recognised standards such as The European Group of Valuers' Association's (TEGoVA) European Valuation Standards (EVS) or the International Valuation Standards Council's (IVSC) International Valuation Standards (IVS), national standards referring to those international standards such as the Italian Banking Association (ABI) Guidelines for the valuation of property guaranteeing credit exposures or, as a residual possible option, internal standards. In this very last case, the choice of this solution must be explained to the supervisory authority, on the basis of the "comply or explain" rule.
Since November 2010, ABI, together with professional bodies and public and private associations of valuers/valuation companies, have promoted the updating of the ABI Guidelines aimed at responding to the principles introduced in the Bank of Italy's Supervisory Instructions and the MCD, as well as at pursuing the objectives of transparency and efficiency. There was an update of the guidelines in December 2015 and, at the time of writing, 73% (in terms of branches) of Italian banking groups has adopted the guidelines. The guidelines were drawn up taking into account the indications contained in international valuation standards, (IVS, EVS, and the Italian Property Valuation Standards (Tecnoborsa)) to reflect the national environment.
ABI's Guidelines concern: the definition of market value prescribed in the CRR; a code of conduct for the valuer who applies the valuation standard and draws up the valuation report; general principles and concepts for carrying out a property valuation; the requirements and content of the valuation report with operating indications and documentation to be annexed to the valuation report. These requirements specify internationally adopted valuation methods: the market comparison approach, the financial method and the cost approach. Moreover, ABI's guidelines set the procedures for valuing development properties, including the calculation of the development status and the procedures for measuring a property and, in order to respect international standard and ascertain the quality of the valuation report in relation to the exposure secured by properties, the standard contains a guideline to review the valuation carried out by the valuer by assigning the valuation to another valuer for an impartial opinion.
At the time of writing, the Guidelines will be updated to take account of the latest development of regulatory framework further to the transposition of the MCD, particularly in relation to professional requirements and compulsory professional and educational training of valuers and the adequate organisational structure of valuation companies. These are considered basic standards intended to define best practices in valuation reports completed for credit institutions in Italy.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
The same framework applies for both residential and commercial property.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential: Market value
- Commercial: Market value

b) Based on what definition? Please provide the definition and reference to where it can be located.
The definition in Article 4 CRR.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
There is no other valuation base than Market Value.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
To ascertain the Market Value, comparison approach is typically used for residential property and the appropriate methodology depending on the specific situation is used to value commercial property.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and

content of the valuation report? If yes, please indicate what these minimum requirements are.
No requirements are specified.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The ABI's guidelines define the useful content for a proper valuation in line with international standards, describing the objective elements that should be included both for residential and commercial properties.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
Please refer to 1.3 (b).

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
The use of AVM is not part of any legal or professional framework, but following the CRR and the latest European Central Bank (ECB) guidelines on non-performing-loans (NPL) and specifically chapter 7 on property valuation, the ABI's guidelines do not permit the use of AVMs for individual valuations.

b) For what purpose are AVMs employed in your Member State?
   - Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.): Yes
   - Mortgage Origination & others: Not for origination but they can be used for monitoring.

c) Do you foresee an increase in the future use of AVMs?
It is possible that as the level of technology for credit institution activities increases, AVMs could increasingly be used for monitoring purposes.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Although some valuation companies own private databases, there is no public database in Italy with data regarding useful comparable (price, quantitative or qualitative data) for the correct implementation of MCA according to international standards. The existence of such a database would significantly assist valuers in their work.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
Together with professional bodies of valuers and with public and private associations of valuers or valuation companies, ABI is promoting an initiative to define specific guidelines on assets related to NPLs. The objective is to highlight best practices to be used by stakeholders in performing the valuations related to distressed assets, including Tribunal experts that are in charge of the valuation of assets in auctions.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
Article 19(2) of the MCD has been transposed by way of Circular 285 affirming that the requirement is satisfied when the professional has three years of experience in valuation and has professional competency verified in one of the following ways: (i) membership of a professional body that grants authority to perform valuations; (ii) professional activity in valuation or being a university professor of architecture, engineering or subjects related to property valuation (iii) having proper qualifications which demonstrate competence to carry out valuations applying international and national standards. Valuation companies must have an adequate organisational structure and valuers with aforementioned requirements. Professionals and valuation companies must be controlled by the bank by way of contracts.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
Circular 285 provides a list of potential situations of conflict of interest that each valuer or valuation company could encounter e.g. family, civil partnership and/or professional relationships or interests related to the property, the customer or with those responsible for credit decisions. These situations would be detrimental of the principle of independence.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Please refer to 2.1 (b).

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The Bank of Italy sets a minimum requirement of three years of professional experience and competence and also requires that banks guarantee that the professional competence of valuers is taken into consideration in relation to the importance of the valuation of the asset and the amount of credit.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
No, the title is not protected.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
There is a legal framework which poses very strict rules for experience, competence and professional requirements.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
   - If yes, do credit institutions have the possibility to employ both internal and external valuers?
   - Is one type of valuer typically employed more frequently than the other?

No such rules are specified; however, banks are able to employ both internal and external valuers.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Typically banking groups use valuations performed by external valuers, while internal valuers are used to value for high value assets and to perform a quality control of external valuers' work.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
Yes, according to the ABI guidelines.
- Lenders to use only valuers covered by professional indemnity insurance?
Yes, according to the ABI guidelines.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

There is no specific law/rule determining such a responsibility.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
The LTV ratio for the preferential treatment is 80% for residential and 60% for commercial.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
No.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
The Bank of Italy requires banks to also take account of data from the Fiscal/Tax Agency.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
No answer provided.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
The Bank of Italy Circular 285 reaffirms what is already set out in the CRR regarding the timing of the review that must be performed every three years for residential property and every year for commercial property, or at any time in the event of a reduction in the value.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
The ABI Guidelines specify that a review may be carried out using a desktop valuation or drive by valuation to monitor the value of the asset or to verify portfolio guarantees.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No, the regulator has not laid down such criteria.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No, the regulator has not laid down such requirements.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
No, the Market Value is the same as the CRR definition.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
In Italy, there are no specific rules for cover asset valuation.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
The Market Value for real estate.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
There are general regulatory requirements.

d) Are there specific qualification and independence requirements for valuers?
There are general regulatory requirements.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
As for mortgages.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
The cover asset monitor and the internal risk management units are responsible for covered bond monitoring. They follow the general regulatory requirements.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Please refer to III (j).

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
Yes.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
Residential mortgage loans have a maximum LTV of 80%; commercial mortgage loans have a maximum LTV of 60%. Please refer to 3(a).

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
No.

k) Is there any additional LTV limit on a portfolio basis?
No.

Poland

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
According to Article 21.8 of the Mortgage Credit Act: if the lender requires a valuation of the property in the context of a creditworthiness assessment, the valuation should meet the requirements set out in the Real Estate Management Act and, in the case of undertaking a Mortgage Lending Value (MLV) valuation, this should meet the requirements specified in the Act on Covered Bonds and Mortgage Banks.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
There is no separate framework for valuation of commercial properties. The main difference between valuation of commercial and residential properties is the technique/ approach used in valuations (income approach for commercial and comparative approach for residential properties).

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential
- Commercial

This depends on the type of the lender:
- Universal banks use Market Value
- Mortgage banks use Mortgage Lending Value

b) Based on what definition? Please provide the definition and reference to where it can be located.
- Market Value: Article 151 Real Estate Management Act (ustawa o gospodarce nieruchomościami) – the price most likely to be achieved on the market, assuming that the parties to the agreement are independent, are not acting under the influence of pressure, and the property was exposed on the market for an adequate length of time.
- Mortgage Lending Value: Article 22 Covered Bonds and Mortgage Banks Act (ustawa o listach zastawnych i bankach hipotecznych) – Establishing the Mortgage Lending Value of the property shall be performed with due care and diligence, and shall take into account only the permanent features and the yield which the property, provided it is rationally managed, can guarantee any owner. (…) Detailed principles for determining the Mortgage Lending Value of the property are laid down in the regulation on mortgage banks. The regulations, and any changes to them, require approval by the Polish Financial Supervision Authority.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
- Fair value: the amount for which an asset can be exchanged in a market transaction between interested, well-informed and unrelated parties. This is used mainly for accounting purposes.
- Replacement value: Determined for a property which, by reason of its nature, current use or destination, is not or cannot be traded.
- Individual (investment) value: A monetary amount determined for a particular investor or group of investors who have specific expectations and investment criteria and who intend to use the property for a specific investment objective.
- Cadastral value of the property: The cadastral value of the land and the cadastral value of its components.
- Value for forced sale: The amount of money that can be earned from selling a property in circumstances where the seller is under pressure to sell it.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
There are four different valuation methodologies:
- The Comparative Approach: the average price correction method, the statistical analysis of an estate market method, the comparative pairs method.
- The Income Approach: the investment and profits method, and both methods may be employed with the use of either direct capitalisation or using discounted cash flow.
- The Cost Approach: the replacement cost method, the reproduced cost method, the liquidation cost method.
- The Mixed Approach: the residual method, the land's estimated index method.

Usually valuers use the comparative approach for both residential and commercial properties. The valuation of commercial properties is based on a tenancy rate and for the residential purpose – a Market Value of equal residential properties.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Valuers are obliged by law to submit the property valuation in written form (article 156 Real Estate Management Act). It is not possible to depart from the mandatory form. Each valuation report should contain: the object and the scope of valuation; the purpose of the valuation; the formal basis of the valuation and sources of data of real estate; determining dates relevant for the valuation; description of the real estate; purpose of the real estate; analysis and description of characteristics of the real estate market; defined value, approach, method and valuation technique (as determined in a Regulation of the Council of Ministers of 21 September 2004 on property valuation and preparation of valuation reports, §56).

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
Not applicable.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
No differences exist.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
According to Recommendation S (point 16.7): "For credit exposures that are not individually relevant, the bank has the option of applying simplified procedures to assess collateral value and monitor property values based on statistical methods". Moreover, according to Recommendation J (Recommendation No 11): "In the case of a bank significantly involved in mortgage lending, it is necessary to use statistical models based on data from reliable external (interbank) or internal databases to properly assess the risk of changes in collateral values on real estate." According to the Recommendation, "banks significantly involved in mortgage lending" are banks with a share of the mortgage loans portfolio exceeding 2% of the value of mortgage credit exposures for the entire banking sector.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are mostly used for origination & monitoring of the collateral values.

c) Do you foresee an increase in the future use of AVMs?
An increase in future use is possible, especially in the bigger cities where the market is more liquid and it is easier to construct a relevant database.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Have no knowledge hereof.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
The Polish Federation of Valuers Association develops the General National Valuation Rules. According to the resolution of the National Council of Polish Federation of Property Valuers Association (of March 2012), these valuation rules are recommended for use as good practice principles.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
According to article 21.9 Mortgage Credit Act, "property valuation is performed by a property valuer referred to in the Real Estate Management Act, indicated by an agreement between the lender and the consumer." Valuers' professional competence requirements are prescribed in article 177 of the Real Estate Management Act.

Requirements for the valuer are as follows:
- Full capacity for legal actions;
- A university degree;
- No convictions for: a crime against the activities of state institutions, offenses against the judiciary, crimes against the credibility of documents, offenses against property, offenses against business, offenses against trade, money and securities or a fiscal offense;
- Post-graduate studies in real estate valuation;
- Completion of at least 6 months of apprenticeship in property valuation;
- Must have passed a state exam.

Valuers are obliged by law to improve their professional qualification constantly, through participation in training, courses, conferences, etc.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
According to professional standards, valuers must fulfil the following conditions, the valuer:
- must not be personally or officially related to the owner of the real estate;
- must not be employed by the mortgage debtor;
- must not be the mortgage debtor, mortgage debtor's spouse or relative;
- must not be rewarded according to the amount of the loan.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for all valuers.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
The title of property valuer is granted by the Ministry of Infrastructure and Construction (according to article 191 Real Estate Management Act) and is subject to legal protection. Illegal use of this title is an offence and the individual in question is liable for arrest, restriction of liberty and a fine.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Not applicable.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
   - If yes, do credit institutions have the possibility to employ both internal and external valuers?
   - Is one type of valuer typically employed more frequently than the other?

According to the Real Estate Management Act (article 175), a property valuer is obliged to carry out property valuation activities in accordance with legislation and professional standards, with utmost diligence befitting the professional nature of these activities and in accordance with professional ethics, while observing impartiality in the process of valuing the property. The act stipulates the observance of the rules laid out in the Professional Standards of Property Valuers. According to the Professional Standards, a property valuer:
   - Must observe the fundamental principle of impartiality;
   - Cannot be bound by illegal requests of the party ordering the valuation or persons interested in the results of his work;
   - Cannot value his own property or the property of his close relatives if there is a clear legislative ban or if doing so could raise doubts as to the objectiveness of the valuer;
   - Cannot accept any personal or financial gains from the contracting party related to his activities except for the remuneration stipulated in the agreement and cannot condition the extent of the remuneration on the objective expected by the client, nor on the degree to which the client's wish is fulfilled.

Banks have departments for technical analysis, which determine the value of real estate. In some precisely determined instances, there may be a need for a valuation report. This report can be prepared only by the person who holds the title of property valuer. If no individual in the bank holds this title, the bank should commission an external property valuer to carry out the valuation report. In other cases, the technical analysis carried out by the bank's employee is sufficient.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Not applicable.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
   - Valuers to have professional indemnity insurance cover?
   - Lenders to use only valuers covered by professional indemnity insurance?

Yes, a valuer is subject to compulsory civil liability insurance for losses caused in connection with the performance of his professional activities (regulated in article 175 Real Estate Management Act).

b) If there are no such requirements, how are lenders/valuers covered for the risk?
   - Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

Not applicable.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
50% based on Market Value or 60% based on MLV for residential properties.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
No such criteria have been laid down by the regulator.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
The Polish Financial Supervision Authority issued "Recommendation J on the rules for the collection and processing of property data by the banks."

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
   - External (interbank) databases: Independent standardised bank data collection and processing systems systematically collect real estate data, including property characteristics and real estate market prices and values, to analyse and monitor market developments.
   - Statistical models validated by the Polish Financial Supervision Authority (PFSA).

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
No such criteria have been laid down by the regulator.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
The review/ actualisation of a valuation is performed by the same valuer who originally valued the property. The aim of the review is either to confirm the Market Value of the real estate is current, or to specify a new, updated value of the property.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No such criteria have been laid down by the regulator.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
The general requirements expressed in PFSA "Recommendation S on good practices related to mortgage-secured credit exposures" are as follows: The bank should control the reliability of assumptions and market parameters adopted for valuation purposes. The level of parameters adopted by the valuer should be verified by the bank on the basis of available databases on the real estate market, analytical studies and experience. The value thus verified as collateral should be the reference point for determining the amount of credit for retail credit exposures (taking into account LTV limits). For individually significant

credit exposures, revaluations of property values should take place at least once every three years.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
The Market Value is defined in the Real Estate Management Act. As for MLV (apart from the Covered Bond Act), Recommendation F was issued concerning the basic criteria used by the Polish Financial Supervision Authority when approving the rules of establishing the Mortgage-Lending Value issued by mortgage banks.

The main topics of Recommendation F are:
- General issues regarding MLV expertise;
- Rules for the preparation and evaluation of MLV;
- Establishing a mortgage-banking property value;
- Analysis of long-term durable construction costs of a property;
- Analysis of long-term profitability of a property;
- Analysis related to the Market Value of real estate; and,
- Procedure for the preparation of a simplified MLV expertise for residential purposes.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
The Covered Bond Act and Recommendation F.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Mortgage Lending Value.

c) In the case of Market Value valuations, are there any prudential or longer term/ sustainable features of the property to be considered? If yes, to what extend?
Not applicable.

d) Are there specific qualification and independence requirements for valuers?
Requirements for valuers are universal, regardless of the type of valuation they perform.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
There are no differences.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
No specific requirements exist.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Funding limits: 80% for residential properties and 60% for commercial properties.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
Yes, 100% of collateral value enters the cover pool.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
A cap of 100% LTV based on the MLV at the moment of origination (article 13.2 Covered Bonds Act).

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
No.

k) Is there any additional LTV limit on a portfolio basis?
The total amount of receivables in the portion of the loan above 60% of the Mortgage Lending Value of the property may not exceed 30% of the total sum of the mortgage bank's receivables secured with mortgages.

Portugal

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
Law No. 153/2015 defines valuation standards for the Portuguese finance system supervised by the Securities Market Commission (CMVM).

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
No, it is the same as for residential property – Law No. 153/2015.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
There is only one legal framework – Law No. 153/2015.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential
- Commercial

The valuation of property for lending purposes should be carried out according to the Mortgage Lending Value.

b) Based on what definition? Please provide the definition and reference to where it can be located.
The definition of mortgage lending value is prescribed in the Portuguese Central Bank (Banco de Portugal (BdP)) Warning No. 5/2006. The Mortgage Lending Value shall be understood as the commercial value of the property, determined on the basis of prudent criteria and taking into account the long-term sustainable aspects of the property, normal local market conditions, current use and adequate alternative uses of the property. The Mortgage Lending Value considered by the institution may not exceed the market value of the property. The Market Value of the property is understood as the price at which the property may be sold under a contract between an interested seller and a buyer capable of performing the transaction, at the valuation date, on the assumption that the property is put up for sale publicly, that market conditions permit a regular transfer of the property and that there is a normal period, taking into account the nature of the property, for the negotiation.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
The Market Value is currently used for most of property valuations except for lending purposes (banks) and fiscal valuations.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
The valuation methods used do not depend on the valuation base, but on the type of property to be valued. The valuation methods typically applied are:
- Comparative method: principal method if there is a significant number of comparable properties.
- Depreciate reconstruction cost method: Mostly used as a 2nd method to verify the value calculated by another method.
- Income method: Based on a property's capacity to generate net benefits. If the future income is expected to be relatively stable, the capitalisation approach is normally used. This case occurs most frequently in commercial properties and offices when there is an effective rent or market with liquidity for rental. If the future cash flows are expected to vary, the discounted cash flow method approach is used based on the expected income of the project / use that is being made of the property. This approach is most frequently used for hotels, commercial centres or other managed properties.
- Residual Method: This is employed for undeveloped land, unfinished construction. The discount cash flow approachis used for some management properties.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Yes Law 153/2015.

The valuation report must contain the following elements:

Identification elements:
- Identification of the entity that owns the property;
- Identification of the property valuer, as well as the corresponding registration number assigned by the CMVM. When applicable, identification of the corporate name of the legal person on whose behalf the real estate valuers act and the registration number assigned by the CMVM;
- Complete and accurate identification of the property to evaluate, namely if it is an urban, rustic or mixed property;
- Identification of the entity that requested the evaluation;
- Indication of the following dates:
  - the agreement date between the valuer and the bank;
  - the request date of the evaluation;
  - the conclusion date of the property inspection;
  - the conclusion date of the property valuation and the date of the valuation report;
  - The previous valuation made to the property, if applicable.

Evaluation elements:

- Property description, with the location characteristics, conservation state, construction type and use, and other circumstances or facts that are determinant and justify the value in the valuation report;
- Clear identification of the type of the inspection carried out on the property evaluated;
- The reason for the valuation method(s) selected and a detailed description of its implementation;
- Rental value at the date of the valuation and identification of the respective tenants, if the property is rented or, if not, an estimate of the rent that it is expected to generate, if applicable;
- Estimate of conservation costs, maintenance and other indispensable costs for a proper economic exploitation of the property;
- Analysis of the market environment of the property, namely in terms of geographical insertion and the existence of surrounding infrastructures that may influence its value;
- Description of diligences, studies and sectoral data used and other information relevant to the calculation of the property value;
- Justification for the use of yields, depreciation rates and other parameters used, with an indication of how short-term market volatility effects or temporary market conditions were considered;
- Indication of any transactions or real acquisition proposals used in the valuation, regarding real estate with the same characteristics;
- Identification and justification of other variables used in the valuation method that contributed to its result;
- Identification of the value(s) in the valuation report for each of the autonomous parts of the property, if applicable;
- Unequivocal indication of the final value attributed to the property.

Elements of accountability:

- Identification of any limitations to the property value;
- Statement that the valuer has no conflicts as expressed in Law No. 153/2015;
- Declaration that the valuer carried out the evaluation in accordance with the legal requirements;
- Indication of the civil liability insurance policy, the respective insurance company and the duration of the insurance contract;
- Valuer signature and delivery date of the valuation report.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The valuation report must comply with the actual legal framework (Law 153/2015). However, each institution has its own standard mortgage valuation templates that they require the valuer to complete.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
Yes, it is the same for residential and commercial property.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
There is no legal or professional framework that specifies the use of AVMs. Banks can use AVMs for valuations reviews, when available data identifies a downward trend in the property value.

b) For what purpose are AVMs employed in your Member State?

- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

Banks can use AVMs for valuations reviews. AVMs are sometimes employed for portfolio valuations. Some banks have recently introduced AVMs for mortgage valuations as tools for quality control and monitoring. AVMs are also used for taxation purposes.

c) Do you foresee an increase in the future use of AVMs?
Yes. AVMs are increasingly used by mortgage lenders, mainly for valuations reviews, and some type of portfolio valuations, because they are faster and cheaper than a traditional valuation with physical inspections. However, an increase in the use of AVMs is not expected for other uses than the above mentioned, due to the fact that AVMs do not take into account the properties features, nor can they account for changes in market conditions.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
The use of a national database of valuation indices.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
There can only be a sale or lease if the property has an Energy Certificate. This certificate is issued by a certifying company (state owned).

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
Article 19(2) of the MCD regarding "professionally competent" valuers was transposed in Portugal by Law No. 153/2015 (Article 5).
Art. 5(3) states that qualification and professional experience for the exercising of the profession of real estate valuer are only recognised for those who have a degree, post-graduate or master's degree appropriate to the valuation of real estate and relevant professional curriculum, which demonstrates:

- Knowledge in the following areas:
  - Economic Theory Principles;
  - Business Finance Principles;
  - Financial Markets;
  - Construction;
  - Energy, Environment and Resources Protection;
  - Urban Planning;
  - Management and Real Estate Operations;
  - Ethics in Financial Activities.

- In-depth knowledge in the following areas:
  - Analysis of project investments;

- Valuation Methods;
- Accounting and Real Estate Taxation;
- Financial Instruments for Investment in Real Estate;
- Law Applicable to Real Estate and Investment in Real Estate.

- Professional practice time and responsibility levels in line with the characteristics and complexity of the property valuation activity.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
Article 19(2) of the MCD regarding "sufficient independence from the credit underwriting process" was transposed in Portugal by Aviso No. 5/2006 of the Banco de Portugal (Warning No. 5/2006 of the Bank of Portugal) and Law No. 153/2015. The valuer is not considered independent if he is in a situation in which his opinion could be affected, namely if he has any specific interest in the property or any relationship – commercial or personal – with the debtor or if his remuneration depends directly or indirectly on the appraisal value of the property. The valuer must adopt adequate and effective written policies and procedures about independence and rules to avoid conflicts of interest, or the valuer must be submitted to deontological or conduct codes, or approved by a professional association of valuers, which ensures the supervision and sanctioning of their associates.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
Yes, it is the same framework.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
Law No. 153/2015 stipulates that only valuers accredited by the Securities Market Commission (CMVM) can provide services to the Portuguese finance system.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Not applicable.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

Yes. Law No. 153/2015 stipulates that only valuers accredited by the Securities Market Commission (CMVM) can provide services to the Portuguese finance system. According to Aviso No. 5/2006 of the Banco de Portugal (Warning No. 5/2006 of the Banco de Portugal). Valuers can be either internal or external to credit institutions, however, valuers must be independent from the credit analysis and decision process. Most valuers are external.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Not applicable.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

There is a legal obligation for valuers to have professional indemnity insurance cover for Portuguese finance system valuations.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

Not applicable.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
For residential real estate, the usual LTV limit is 80% and for commercial real estate it is usually 60% of the Mortgage Lending Value.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
The value of the mortgaged property must be checked by the credit institution on a periodic basis, at least every three years for residential mortgages and at least once a year for commercial properties, in line with the CRR requirements. As per the CRR, more frequent checks must be carried out if market conditions are prone to significant changes.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
The regulator has not laid down any criteria regarding "monitoring using statistical methods". Each institution may use indices or accepted statistical methods that it considers appropriate. When indices or statistical methods are employed, the bank must submit to the Banco de Portugal a report detailing the foundations for the methodology.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
The regulator has not laid down any criteria regarding "monitoring using statistical methods". Each institution may use indices or accepted statistical methods that it considers appropriate.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
For loans that exceed 5% of the institutions' own funds or exceed EUR 500.000 for residential mortgages and EUR 1.000.000 for commercial mortgages, the valuation must be reviewed at least every three years. Generally, banks must review their valuations if significant changes in market conditions are detected.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Reviews are done using all the methods described i.e. a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or by AVMs.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No such criteria have been laid down by the regulator.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No. The data requirements are set by each institution.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
The only guideline on Market Value and Mortgage Lending Value is the Portuguese Central Bank (BdP) Warning No. 5/2006. The Mortgage Lending Value shall be understood as the commercial value of the property, determined on the basis of prudent criteria and taking into account the long-term sustainable aspects of the property, normal local market conditions, current use and adequate alternative uses of the property. The Mortgage Lending Value considered by the institution may not exceed the Market Value of the property. The Market Value of the property is understood as the price at which the property may be sold under a contract between an interested seller and a buyer capable of performing the transaction, at the valuation date, on the assumption that the property is put up for sale publicly, that market conditions permit a regular transfer of the property and that there is a normal period, taking into account the nature of the property, for the negotiation.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Valuation rules for cover assets are covered by the general legislation – Portuguese Central Bank (BdP) Notice No. 5/2006, and Law No. 153/2015. In Portugal, the legislation on covered bonds (Obrigações Hipotecárias and Obrigações Sobre o Sector Público) is regulated by Decree-law No. 59/2006 of 20 March 2006 and complemented by secondary legislation – Notices and Regulatory Instruments of the Central Bank (Avisos e Instruções), which address issues such as the segregation of assets from the insolvent estate in case of issuer insolvency, the compliance of asset and liability matching and mortgage valuation methodology.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
The valuation basis is the Mortgage Lending Value. For further information, please refer to 2.1(d).
When choosing the appropriate method, valuers should consider the specific characteristics of the real estate and its local market. The valuation of the real estate performed by the valuer should take the form of a written report and include all the elements that allow for an understanding of the analysis carried out and conclusions arrived at.

c) In the case of Market Value valuations, are there any prudential or longer term/ sustainable features of the property to be considered? If yes, to what extend?
The value of the mortgaged asset is the commercial value of the real estate, considering:
- Sustainable characteristics over the long term;
- Pricing under normal market conditions;
- The peculiarities of the local market; and
- The current and alternative uses given to the mortgage asset.

The value of the mortgage asset ascertained by the issuer cannot be superior to its market value, which is the price that the object could be sold at the time the valuation is carried out is. This assumes that the real estate is placed on sale and that market conditions allow for a regular exchange of the mortgaged asset within an adequate timing.

d) Are there specific qualification and independence requirements for valuers?
Yes, they are regulated by the Portuguese Central Bank (BdP) Warning No. 5/2006, and Law No. 153/2015.
The property valuation should be carried out by an independent valuer, with qualifications, competency and professional experience to perform this function. The valuer is deemed not to be independent if he is in a situation in which his unbiased opinion is potentially compromised, namely if he has any specific interest in the real estate being valued or any relationship – commercial or personal – with the debtor, or if his remuneration is dependent on the appraisal value of the property. The valuer may belong to the institution; however, he must be independent from the credit analysis and decision process.
The selection of the valuer by the credit institution must ensure both diversification and rotation, and the credit institution has to maintain an updated list of the selected valuers, identifying the criteria justifying their selection and the real estate valued by each. This list should be sent to the Banco de Portugal by the end of January of each year, reporting up to 31 December of the previous year, and indicate any changes from the last report. If there are any doubts about the performance of the valuer, the Banco de Portugal can refuse to accept the valuations, and require the appointment of another valuer by the credit institution.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
There are no differences.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
The value of the mortgaged property must be checked by the institution on a periodic basis, at least every three years for residential mortgages and at least once a year for commercial properties. More frequent checks must be carried out if market conditions are prone to significant changes. In order to check the value of the mortgaged property or to identify those properties that require periodic valuation by an expert, the institution may use indices or accepted statistical methods that it considers appropriate. When indices or statistical methods are employed, the credit institution must submit to the Banco de Portugal a report detailing the foundations for the use of those indices or statistical methods along with an opinion on their adequacy by an external independent valuer. Property valuations must be revised by an expert whenever there is relevant information that indicates that a substantial reduction of the asset value has occurred or that the asset value relative to the general trend of the market has declined significantly. For loans that exceed 5% of the institutions' own funds or exceed EUR 500,000 for residential mortgages and EUR 1 million for commercial mortgages, the valuation must be carried out at least every three years. Revision of the value of an asset must be documented by the credit institution, in a clear and rigorous way, and include a description of the criteria and frequency of such a revision.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Yes, there is an LTV limit of 80%.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
No.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
The maximum LTV accepted for assets to be eligible in the pool is 80% for residential mortgages. Portuguese legislation does not allow an LTV cap for this purpose.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
Yes, loans with an LTV above 80% are removed.

k) Is there any additional LTV limit on a portfolio basis?
No, the only limit is 80%.

Romania

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.

ANEVAR, the Romanian National Association of Chartered Valuers, is the professional competent authority that organises and coordinates valuation activity in Romania. The Association represents the interests of the valuer profession nationally and internationally.

Valuation activities can only be undertaken by authorised valuers which are members of the Romanian National Association of Chartered Valuers. The National Association enrolls all valuers in Romania. The Romanian regulatory framework for mortgage property valuations (that transposes Article 19 of the MCD) consists of general rules laid down in Regulation No. 5 of 2013 (Regulament 5 –2013), Article 92 (issued by the National Bank) and ANEVAR's Asset Standards regarding Valuation for Secured Lending GEV 520 issued in 2014. These implementing rules require, in particular, the application of the International Valuation Standards regarding methodology, valuer qualifications and independence. An independent valuer is defined as a person possessing the necessary qualifications and being independent from the credit decision process.

It is worth mentioning that banks have to have a clearly established lending policy concerning the types of property and the lending conditions in place. Banks also need to have an internal procedure in place that allows them to monitor valuation activity. As a general rule, banks have their own external valuers (chosen in accordance with internal procedures and verification requirements) and in-house valuers that monitor valuation activity and sometimes undertake valuations for special purposes. There are cases when domestic banks use their own in-house valuers and only in exceptional cases accept external valuations.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.

No, Romania has no specific legal framework for the valuation of commercial property.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.

Please refer to 1.1 (a).

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
   - Residential
   - Commercial

   The valuation base typically used for both types of property is Market Value.

b) Based on what definition? Please provide the definition and reference to where it can be located.

   Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (SEV 100 Framework, pct. 29).

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
   - Investment Value: reflects the circumstances and financial objectives of the entity for which the valuation is being produced. It is often used for measuring investment performance. Differences between the Investment Value of the asset and its Market Value provide the motivation for buyers or sellers to enter the marketplace.
   - Fair Value: is the estimated price for the transfer of an asset or liability between identified, knowledgeable and willing parties that reflects the respective interests of those parties. Fair Value is a broader concept than market value. Although in many cases the price that is fair between two parties will equate to that obtainable in the market, there will be cases where the assessment of fair value will involve taking into account matters that have to be disregarded in the assessment of Market Value, such as any element of special value arising because of the combination of the interests.
   - Special Value: is an amount that reflects particular attributes of an asset that are only of value to a special purchaser.
   - Synergistic Value: is an additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?

   The value used for mortgage lending purposes is generally the Market Value. Three main valuation methods are used: comparison, income approach and cost approach.
   - Residential Properties:
     - Comparison method;
     - Income method;
     - Depreciated replacement cost method: for new properties or special properties (some banks do not accept this method any more).

- Commercial Properties:
  - Income method or Discount cash flow approach;
  - Comparison method;
  - Depreciated replacement cost method (some banks do not accept this method any more).

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
There are no rules for the format of the report. The minimum requirements for the form and content of the valuation report are regulated by SEV 103 Valuation Standard-Reporting 2016.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The content of the valuation report is provided by SEV 103 Valuation Standard-Reporting 2016. Each valuer has his own format which will generally cover the normal content such as location, situation, building description, floor areas, planning, tenure, tenancy etc., (usually established in an agreement between valuer and the bank), or the bank imposes the use of a standard template.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
Common practice does not reveal any differences between the content of a residential and a commercial property valuation report. SEV 103 Valuation Standard-Reporting 2016 does provide for different treatment regarding the content of the valuation of the two kinds of properties.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
ANEVAR's Standards, and specifically section GEV 520, entitles banks to use AVMs during the loan payback period. The mass valuation is performed upon dates established based on the internal rules of the credit institutions, in line with the frequency rate required by the legislation in force, for all the guarantees that are not subject to individual valuation.
Mass valuations shall be performed for all guarantees in the credit institution's portfolio, which make up a statistical population (real estate such as apartments, land within cities, individual dwellings, and any type of asset for which it is possible to identify statistical population).

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are used for monitoring and adjusting portfolio values in the context of the CRR.

c) Do you foresee an increase in the future use of AVMs?
It is estimated that the use of AVMs will increase in the future, relying on the collateral value collected in a database monitored by ANEVAR, which will be able to provide real estate indices.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Digitalisation – applications (especially on mobiles) that allow faster processes, automated market analysis and AVMs.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
The ANEVAR initiative of creating a collateral value database (BIG) that offers transparency of valuation practices. All valuers working for banks should register results in BIG.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
ANEVAR, based on Law 99/2013 and Ordinance 24/2011, ensures that valuers are professionally competent on the basis of the following requirements:
- The individual must have a university degree;
- The individual must not have any convictions;
- The individual must have passed a professional exam, as per ANEVAR procedure;
- The individual must have completed a stage period and passed an exam, as per ANEVAR procedure;
- The individual must complete 20 hours/ year of continuous professional development, as specified by ANEVAR.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
This is specified by Regulation 5/2013 (NBR) on prudential requirements for credit institutions: (3) For the purposes (credit underwriting process) indicated in paragraphs (1) and (2), credit institutions must value the collateral using valuers with the qualifications, skills and experience necessary to carry out an assessment and who are independent from the credit granting process. Also important is another provision regarding internal valuers – GEV 520, section 9 – internal valuers of credit institutions must be independent from the credit granting process.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
The internal valuer should not be a part of the underwriting process, in line with GEV 520, section 9 which states that internal valuers of credit institutions must be independent of the credit granting process.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The regulatory framework is the same for both residential and commercial property valuations.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
Yes, the use of the title of valuer is protected by Law 99/2013 and by ANEVAR.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Not applicable.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
Paragraphs 1 and 2 of Article 92 of Regulation 5/2013 (NBR) and valuation standards, section GEV 520, specify under which conditions collateral should be valued, and paragraph 3 specifies who can value collateral – valuers recognised by ANEVAR. NBR (National Bank of Romania) -Reg 5/2013 on prudential requirements for credit institutions Art. 92:
- (1) For the valuation of collateral assets outside Romania, in order to recognise their quality of credit risk mitigates according to the National Bank of Romania's regulations, credit institutions take into account the International Valuation Standards.
- (2) For the valuation of collateral assets located in Romania, recognising their quality of diminished credit risk in accordance with the NBR, credit institutions must consider valuation standards issued by the National Association of Valuers from Romania (ANEVAR).
(3) For the purposes indicated in paragraph. (1) and (2) credit institutions must commission valuations of collateral from persons holding the qualifications, skills and experience necessary to carry out an assessment and who are independent decision making regarding credit.
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
Banks have the possibility to employ both internal and external valuers, recognised ANEVAR members (GEV 520).
- Is one type of valuer typically employed more frequently than the other?
Not available.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Most banks employ external valuers, while the monitoring of valuation reports is conducted by internal valuators.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

In Romania, Ordinance 24/2011 stipulates that all valuers should have minimum insurance cover. In addition, banks require certain levels of insurance, both for individual valuers and valuation companies.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

Not applicable.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
The LTV ratio depends on specific internal bank regulations and ranges from 65% to 85%.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
Some banks have internal criteria that require a revaluation of collateral in the event that real estate changes reach certain levels.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
ANEVAR standards section GEV 520- Valuation for Secured landing establishes the criteria regarding valuation using statistical methods.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
Mass valuation relies on statistical valuation methods. For that purpose, a representative sample of the whole population (portfolio) must be extracted. Valuation using statistical models consists of the following stages:
- Identification of subject;
- Elaboration of special assumptions and hypotheses;
- Data management and data quality analysis;
- Establishment of a representative sample;
- Sample stratification (if it was not constructed by stratified sampling);
- Establishment of model specification;
- Model calibration;
- Model testing and validation;
- Application of the model;
- Analysis of the results and the value conclusion.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
Not available.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
In practice, banks review the original valuation reports according to internal rules, but most often the review is carried out by way of a new full-size valuation report.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
Not available.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
Valuers are required to register the data of the valuation reports for lending purposes in the ANEVAR database – BIG.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
Yes, the standards contain guidelines on Market Value. Section GEV 530 "Determination of long-term value of an immovable property" which is the guideline for Mortgage Lending Value is currently being updated and is not in use.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Not available.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Not available.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Not available.

d) Are there specific qualification and independence requirements for valuers?
Not available.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Not available.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Not available.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Not available.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
No.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
For residential, the cap is at 80%, for commercial it is 70%. Law No. 32/2006 governing Romanian mortgage covered bonds is at the time of writing under review.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
Not available

k) Is there any additional LTV limit on a portfolio basis?
No.

Slovakia

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.?
Banking activities in general are regulated in Slovakia by:
- Act No. 483/2001 Coll. o banks and on changes and the amendment of certain acts, as amended;
- Act No 90/2016 Coll on Housing Loans and on change and amendment to certain acts;
  Act No. 162/1995 Coll. on land registries and registration of ownership titles and other rights to real estate (Land Registry Act), as amended;
- In addition, recommendation No. 10/2016 issued by the National Bank of Slovakia sets out the details of assessing the consumer's ability to repay the housing loan;
- Additionally, banks have to have an own internal regulation on determining collateral value.

An expert opinion on the general value of assets with a view to concluding a lien contract and establishing a lien shall be filed in accordance with:
- Decree No. 492/2004 Coll. (as amended) on determining the general value of assets of the Ministry of Justice of the Slovak Republic. The decree specifies the methods and procedures for determining the value of the asset including residential and non-residential property and
- Decree No. 490/2004 Coll. of the Ministry of Justice of the Slovak Republic implementing Act No. 382/2004 Coll. on valuers, interpreters and translators and on amendments to certain laws, as amended.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
Please refer to 1.1 (a).

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Please refer to 1.1 (a).

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential: Market Value (in the law defined as General value), this value is accepted by financial institutions.
- Commercial: Market Value (in the law defined as General value), this value is accepted by the financial institutions.

b) Based on what definition? Please provide the definition and reference to where it can be located.
Market Value: Means the price at which the ownership right of the asset may be sold between a seller willing to sell and a buyer willing to buy the asset, within the framework of a private contract of purchase and sale, at the time of the valuation, assuming that the asset is marketed publicly, the market conditions allow the regular arrangement of the transactions, and that, with respect to the nature of the asset, there is sufficient time to conduct the negotiations required for the transaction.
In law, the market value is defined as general value: This value is determined in external valuers valuations. It is the most probable value of the property at the date of valuation in a given place and time, on the market under conditions of free competition. The general value of the property serves as a basis for internal valuers to determine internal value accepted by bank. This internal value is determined as the lowest value of the property considering following:
- the purchase price;
- the price set by the expert, and;
- the price determined on the basis of an internal valuation.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
No answer provided.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
No answer provided.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Minimum requirements are provided in Decree No. 490/2004 Coll. implementing Act No. 382/2004 Coll. on experts, interpreters and translators and on amendments to certain laws, as amended. Valuation reports must contain the following items:

- Introductory part;
- The report itself:
  - General information: Selection of assessment methods, including reasons why other methods of valuation were not used, which must be duly motivated by the valuer, ownership and registration data, records of the visual inspection, technical documentation, notes from the Land Register, description of all lands, and structures on the lands;
  - Determination of Technical Value;
  - Determination of General Value (analysis of location of real estate, analysis of usage of real estate, risk analysis);
  - The valuation methodology or methodologies used and the related justification;
  - Other parts (estimation of deficiencies related to the subject of the assessment).
- Conclusion;
- Annexes:
  - Descriptive information from the Land Register;
  - Geodetic information from the Land Register;
  - Geometric plan;
  - A layout of each floor of the real estate in adequate scale with the description of the purpose of each room;
  - Permission for use, purpose of use, document of the age of the real estate;
  - All documents on the basis of which the construction and technical state of the individual components of the valued real estate was determined;
  - Detailed description of findings based on visual inspection;
  - Connection to all public utility networks;
  - Photo-documentation.
- Valuer's clause

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
Please refer to 1.3(a).

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The used forms are based on the same principles, in accordance with legislation. The difference is in the valuation method:
- Residential property: It is mandatory to use the positional differentiation method;
- Commercial property: For non-residential properties (operational, administrative, etc., except health care facilities), or those where the achieving of revenues is real, despite the fact that at the time of the valuation they are not fully or partially rented, the use of the combined method is obligatory.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs (Automated Valuation Models)? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
There are no specific rules/guidance on the use of AVMs.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are not used in Slovakia at the time of writing.

c) Do you foresee an increase in the future use of AVMs?
Not available.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Not available.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
One market initiative is the continuing discussions on the establishment of the Royal Institution of Chartered Surveyors (RICS) standards in Slovakia versus legislative norms. The question is the role of consistent, internationally recognised standards, valuation methods in the real estate market and their introduction into practice.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed.
An expert opinion on the general value of a real estate may only be filed by a valuer (individual) registered in the list of experts maintained by the Ministry of Justice, in field 37 00 00 Construction – Sector 37 09 00 Estimation of assets values, meeting the conditions of the execution of expert activities.

The following pieces of legislation are of relevance:
- Decree No. 491/2004 Coll.
- Decree of the Ministry of Justice of the Slovak Republic on remuneration, compensation of expenses and compensation for the loss of time for experts, interpreters and translators.
- Decree No. 490/2004 Coll.
- Decree of the Ministry of Justice of the Slovak Republic implementing Act No. 382/2004 Coll. on experts, interpreters and translators and on amendments to certain laws, as amended.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
If professional competence requirements are not respected, the bank does not accept the valuation report.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
According to §8 (3a) of the Measure of the Slovak National Bank in the area of the Prudential Provision of Housing Loans valid from 1 January 2017, an internal valuer is a person independent of the decision-making process for approving a housing loan.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
The independence of the valuer from the credit underwriting process is ensured.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for all valuers.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
Yes, title of valuer is protected by law:
- Act No. 382/2004 Coll. on experts, interpreters and translators and on amendments to certain laws, as amended
- The applicant is required to fulfil the legal requirements to obtain the authorisation to perform the valuation activities. After that, the valuer can be registered in the list of experts maintained by the Ministry of Justice and perform this function.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
The title of valuer is protected. Please refer to 2.2 (a)

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
In the context of the Measure of the Slovak National Bank in the area of the Prudential Provision of Housing Loans Valid from 1 January 2017 banks are obliged to ensure valuations and revaluation of real estate collateral are conducted by an internal valuer. Market (general) Value is determined in the external valuers valuation report and serves as a basis for internal valuers.
- Is one type of valuer typically employed more frequently than the other?
Internal valuers are more frequently employed.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Not applicable.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
The valuer entered in the list of experts maintained by the Ministry of Justice may carry out an activity only if he/she is insured against liability for damage which may arise in connection with the performance of the practice.
The insurance policy must include a limit for one insured event of at least €33,193.
- Lenders to use only valuers covered by professional indemnity insurance?
The existence of professional indemnity insurance is a basic requirement in terms of legislative standards.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.
Please referent to 2.4(a).

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
The maximum LTV rations are 80% for residential real estate and 60% for commercial real estate.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
In the context of the Measure of the Slovak National Bank in the area of the Prudential Provision of Housing Loans Valid from 1 January 2017 obliged to ensure internal revaluation of real estate collateral when significant changes in market conditions occurs.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
There are no further criteria other than those laid down in the CRR.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
There is no common national regulation on applied statistical methodology.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
Statistical data must in particular:
- contain information about the real properties listed in the contractual documentation;
- contain information about specific real estate only once;
- take into account the value of the property, including three different characteristics that are considered relevant for the valuation;
- contain sufficient quantity and consistency of information;
- contain a sufficient time series of information.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Residential: Banks use statistical methods for monitoring, meaning available information to evaluate the development of prices since the most recent valuation of the real property from internal sources, i.e. from the prices for properties accepted by banks (internal supervision) and from external sources, e.g. the statistical development of residential property prices in Slovakia compiled by the National Bank of Slovakia and the database of prices from Datalan.

Commercial: Banks use the individual full content revaluation method, which entails the following:
- a check of the technical condition and actual use of the real property;
- check of technical documentation to ensure no change in ownership or other changes on the deed have occurred (new liens or other restrictions, etc.);
- check of data on the up-to-date deed;
- a check of insurance cover for the collateral and a check of insurance premium payments.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No, there are no such definitions.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No, there are no such requirements.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
Market Value (general value) is the most probable value of the property at the date of valuation in a given place and time, on the market under conditions of free competition. This value serves as a basis for internal valuers. An expert opinion on the market (general) value of assets with a view to concluding a lien contract and establishing a lien shall be filed in accordance with:

- Decree No. 492/2004 Coll. (as amended) on determining the general value of assets of the Ministry of Justice of the Slovak Republic; and,
- Decree No. 490/2004 Coll. Ministry of Justice of the Slovak Republic implementing Act No. 382/2004 Coll. on experts, interpreters and translators and on amendments to certain laws, as amended.

In general, the value accepted by the bank may not exceed the lowest of the values – purchase price (Market Value), the price set by the external appraiser and the price set on the basis of an internal valuation.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
These are provided by Act No. 530/1990 Coll. on bonds as amended: "Covered bonds", which Slovak legislation recognises only in the form of mortgage bonds and municipal bonds secured by mortgage and municipal loans, whereas the issuer of these securities can only be a mortgage bank.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
No answer provided.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
No answer provided.

d) Are there specific qualification and independence requirements for valuers?
No answer provided.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
No answer provided.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
No answer provided.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
No answer provided.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
No.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
No.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
No.

k) Is there any additional LTV limit on a portfolio basis?
Yes, 10%. Mortgage and municipal loans going beyond the 70% limit may only be granted on the condition that the total amount of claims of a mortgage bank overrunning the limit does not exceed 10% of the total amount of outstanding mortgage and municipal loans.

Spain

By **Iñigo Amiano**, *CEO Krata*
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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
Since 1984 the Ministry of the Economy has published and updated legislation which sets out the obligatory standards for valuations of real estate that serves as a guarantee for residential and commercial mortgage loans and for other purposes related to third party guarantees based on real estate assets. The current legislation that regulates the valuation of residential (and commercial) real estate to support financial transactions is the "Norma ECO 805/2003", first published on 27 March 2003. The "reliable standards" are clearly set out in the legislation.
In addition to the Norma ECO 805/2003 legislation, the main valuation professional body in Spain, the Asociación Española de Análisis de Valor (AEV) publishes its professional standards, which are compulsory for its members (representing 85% of the valuation market in Spain) for valuations of all property classes. The AEV professional standards set out additional requirements considered important by its members. Please refer to 1.5 (a), and are thus broadly incorporated in the Spanish mortgage valuation processes.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
The same legislation and standards for residential property are applicable to commercial property.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
   - Residential Mortgage Lending Value
   - Commercial Mortgage Lending Value

   Please refer to 1.2(b).

b) Based on what definition? Please provide the definition and reference to where it can be located.
For both residential and commercial property, the Mortgage Lending Value (MLV) is the basis of value for property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the broad and local market conditions, the current use and alternative appropriate uses of the property. Potential speculative uses for the property at the date of the valuation are not considered.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Other valuation bases are used depending on the purpose for the valuation (not the type of property). These include Market Value (MV) and Replacement Value (RV), definitions of which are found in Article 4 on Definitions in ECO 805/2003. For example, if a client is acquiring or selling a property, that client may instruct the valuation firm to provide a Market Value. For the purposes of an insurance policy or a property under construction, the client may request a RV. Sometimes the clients ask for a Forced Sales Value as defined in The European Group of Valuers' Association's (TEGoVA) EVS.
ECO 805/2003. Article 4 – Definitions:
Market Value: is the estimated amount for which the property 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 being under compulsion, and assuming that the market conditions permit to make use of the asset in a proper manner and that there has been a normal period of time to negotiate the sale, depending of the nature of the property.
Replacement Value/Cost: is the sum of all the inversions that would be necessary to build, at the date of the valuation, another building or asset of the same characteristics (capacity, use, quality, etc.) as the valued one, but using the technology and materials currently available.
NOTE: As stated above, if a Spanish financial institution instructs a valuation for the purposes of granting a loan with a mortgage on the property or to substantiate its value to third parties, then Spanish legislation requires the valuation to be based on the Mortgage Lending Value (MLV).

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
To calculate the Mortgage Lending Value of completed (not under construction) properties, the Adjusted Comparison method and the Income Capitalisation method are employed. To calculate the Mortgage Lending Value of land or buildings subject to rehabilitation, the Adjusted Comparison method and the Residual (Static and Dynamic) method are employed. In the case of specialised properties with no clearly defined pool of buyers, the MLV is calculated using the Cost Method and the Income Capitalisation Method. To calculate the MLV of royalties, administrative concessions or leaseholds, the MLV is calculated using

the Adjusted Comparison Method, the Income Capitalisation Method and the Residual Valuation Method.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Yes, ECO 805/2003 dedicates Articles 61 to 78 provide a detailed description of the minimum requirements in terms of the form and content of the valuation report (Elaboration of the valuation report and the valuation certificate).

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
Not applicable.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The differences in the form and content of residential versus commercial valuations derive from the methods of valuation employed; commercial valuations use both market approach and income approach (as defined in TEGoVA's EVS) and put significant emphasis on rental and investment markets. Residential valuations in Spain are overwhelmingly focused on the adjusted comparison method (market approach with adjustments related to the real estate cycle). In the nascent but growing residential rental market, the form and content of valuation reports reflect a combination of the market and income approach.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
Yes, the Bank of Spain, which oversees the banking sector, issues "Circulares" or "Edicts" which are binding on banks and on Valuation Firms. In the Circular 4/2016 (dated April 27, 2016), the Bank of Spain sets out those cases where financial institutions are allowed to use AVM´s to value specific parts of their portfolios.
In addition, the AEV has issued a Standard Guide for professional valuation firms to follow and comply. The AEV has shared its Standard with the Bank of Spain, not having received negative feedback at the time of writing. The Bank of Spain is expected to issue its own guide (believed to be of help interpreting their own Circular Letter 4/2016) of reasonable procedures for instructing, issuing and the proper use of AVMs by financial institutions and the valuation firms registered in the Bank of Spain.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
  On October 2016 Circular Letter 4/2016 of the Bank of Spain, which regulates the frequency and methodology with which valuations for accounting purposes must be carried out by financial entities, came into effect. This Circular Letter is intended to monitor and lessen the risk of credit attached to mortgage products, and it obliges to annual revaluation of assets acting as a guarantee for non-performing loans and also those allocated to financial entities. Moreover, it obliges banking entities to pay attention to any possible market drops, in which case they must also revalue the guarantees of all loans in normal and sub-standard situations. As a novelty in Spain, the Circular Letter allows valuations of these types of assets to be carried out using AVM methodologies whenever their values are below 250.000 € and they can be considered "susceptible to repeated production" (e.g. housing units, garages or box rooms).
- Mortgage Origination & others
  No, AVMs are not allowed for use in Mortgage Origination.

c) Do you foresee an increase in the future use of AVMs?
Yes, AVMs will be an important tool used by the valuation sector in Spain. There are 25 million homes in Spain and the sheer size of the market requires new technology to streamline processes and reduce costs.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Looking into the future, the Spanish valuation firms are closely following improvements in AVM models, economic indices, drone technology, smart homes with cameras and big data.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which have promoted market best practices and/or transparency of valuation practices.
In order to promote best practices and transparency of valuation practices, the valuation industry, mainly represented by the AEV and Asociación Profesional De Sociedades De Valoración (ATASA) associations, has undertaken numerous initiatives on a national and international level. Both AEV and ATASA are also full members of TEGoVA, and participate actively in their activities, commissions and assemblies. Since 2016, AEV has also been a member of the International Valuation Standards Council (IVSC), an independent organisation that elaborates and implements universally accepted valuation standards around the world.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
At the time of writing, the transposition of this Directive has still not been completed by the Spanish Government. However, given that the Draft of the *"Law on Real Estate Credit Contracts"* (which has been in public consultation since July 2016) does not modify the regulation on competence and independence of valuation firms currently in force (law known as *Royal Decree 775/1997 of Jurisdictional Regime for the Homologation/Official Recognition of Valuation Firms*), no significant changes are expected from the legislation once finally approved.

For its part, Royal Decree 775/1997 establishes that the homologation (Official Recognition by the Bank of Spain) of a Valuation Firm will be obligatory when valuing properties intended to serve as a guarantee for mortgages (origination and valuation update of mortgage collateral). Among the requisites for the homologation process, valuation firms are required to count on the following resources:
- A minimum of 3 "linked valuers" (meaning that they contribute exclusively for one valuation firm), linked to them on an exclusive and permanent basis whose mission is to internally guarantee that the valuation firms have sufficient and accurate knowledge of the situation and conditions of the real

estate market in which they are operating and that the applicable valuation regulations and legal obligations and incompatibilities are uniformly and correctly observed. These valuers are recognised and registered as such by the Bank of Spain itself, considering for such recognition their university degree, their professional experience and their proven achievements in the field of valuation/appraisal. These "linked valuers", in addition to holding the educational qualifications mentioned above, must also have a minimum of three years' experience conducting valuations. This experience may be acquired by performing valuations for valuation firms, for the Cadastre (Tax Authority) or for other offices within the public administration.

- A minimum structure of technical and human resources, as well as internal control mechanisms to ensure an accurate knowledge of the situation and conditions of the real estate market in which the firm is operating, and that the applicable valuation regulations and legal obligations and incompatibilities are uniformly and correctly observed.
- With regards to the "professionals" contributing to the valuation work of the valuation firms, the Royal Decree 775/1997 establishes specific requirements for the professionals who shall be engaged in the valuation of properties by the valuation firm. These professionals, to be enabled by law to participate in the valuation of urban properties or land plots intended to contain residential buildings, must be "architects and/or building engineers"; for the rest of property classes, they must be "engineers of the correspondent specialty, depending on the nature of the valued property".

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
The transposition of this Directive has not still been completed by the Spanish Government. However, given that the Draft of the "Law on Real Estate Credit Contracts" (which has been in public consultation since July 2016) does not modify the regulation on competence and independence of Valuation Firms currently in force (law known as Royal Decree 775/1997 of Jurisdictional Regime for the Homologation of Valuation Firms), no significant changes are expected from the legislation once finally approved.
For its part, Royal Decree 775/1997 establishes in its Article 13 that those professionals contributing to the issuing of valuations by Valuation Firms registered in the Bank of Spain will not be able to participate in the valuation of properties, assets, enterprises or patrimonies owned by persons or entities with whom the professional cannot reasonably maintain an independent position, affecting his objectivity during the valuation process. Same limitation applies to valuation firms when such conflicts of interest is detected affecting shareholders, members of the board and top officials of the firm.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not Applicable.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
Valuation firms that value residential and commercial properties share the same professional and regulatory framework.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
No, the "title" of valuer is not specifically protected, since it is the valuation firm which is responsible for performing valuations.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
In the regulated financial sector (i.e. for mortgage lending purposes), this is not a problem in Spain because valuations for mortgage purposes must be conducted exclusively by a valuation firm registered with the Bank of Spain, as established in the above-mentioned Royal Decree 775/1997. However, companies, entities and individuals that are NOT regulated financial entities are not required to exclusively use valuations issued by recognised valuation firms, and therefore they are NOT protected under any regulatory framework if they commission valuations to individuals or a different kind of firm.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
Yes, credit institutions must employ valuation firms approved and registered by the Bank of Spain.
- If yes, do credit institutions have the possibility to employ both internal and external valuers?

No, credit institutions must use independent, external valuation firms certified and in good standing with the Bank of Spain requirements.
- Is one type of valuer typically employed more frequently than the other?

Not applicable.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Not applicable.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
  Valuation firms are required to have professional indemnity insurance.
- Lenders to use only valuers covered by professional indemnity insurance?
  Yes, lenders may only use valuation firms which must have professional indemnity insurance.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.
  Not applicable.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
For residential mortgages the maximum LTV allowed is 80% and for commercial real estate the LTV threshold is 60%. The new Mortgage Regulation approved in December 2007 allows for LTVs for residential loans of between 80% and 95%, provided that the loans carry mortgage insurance for the excess over the 80% threshold. In the same way, this new regulation allows for the LTV for commercial loans to be extended up to 80% if there are additional guarantees for the Loan.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
In 2016 the Bank of Spain passed a new accounting rule (Circular Letter 4/2016) with the purpose of updating the previous regulation on required public and financial information and risk management. According to the new regulation, both the methodology and the frequency for the monitoring of real estate assets serving as collateral of loans become more stringent when the accounting classification of the risk deteriorates. Circular 4/2016 establishes that financial institutions must have written policies and procedures, approved by their board of directors, for the valuation of mortgage collateral and must set out the criteria for assessing that collateral if a significant drop in their values has occurred. If this is the case, the financial institution must immediately proceed to update all of the valuations regardless of the previously approved schedule of valuation updates. The valuation procedures for the updating will be more severe for those operations where the amount of the loan could exceed the value of the collateral, after value adjustments.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
Yes, it allows the use of statistical methods only for monitoring normal and/or substandard risks with a nominal value below EUR 3 million (or 5% of the credit institution´s equity). For non-performing assets, the maximum nominal value of the operation for the use of statistical methods is limited to EUR 250,000 or less. For all of these risk levels and categories, the use of statistical methods will be subject to the following requirements:

- C1. The properties subject to valuation must have characteristics and features susceptible to repeated production.
- C2. Automated Valuation Models (AVMs) have to follow generally accepted valuation practices.
- C3. Valuers have to back test the outcomes by contrasting the AVM outcomes with the results from individual complete valuations.
- C4. Internal audit services are required to supervise the quality of the databases used by the valuation companies or lender's internal valuation services in order to for these properties to be valued by way of AVMs.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
There are many methods and tools used in the market. Many AVMs have been developed by valuation firms and by financial institutions. Some models have been developed by independent companies and sold to valuation firms and to financial institutions.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
The periodical review of property valuations is established in Circular Letter 4/2016 from the Bank of Spain.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or similar.
In general, a "review" comprises a new individual complete valuation. Exceptions are permitted in some circumstances and then statistical methods are allowed.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
Financial institutions have to develop their own internal procedures for identifying a material decline in asset values. Please refer to 3(b).

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
Valuation methodology and data requirement are specified in Order ECO/805/2003, which is fully compliant with international valuation standards (EVS and IVS).

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
Both market value and mortgage lending value are defined in Order ECO/805/2003. According to this Order, the valuation of properties for mortgage lending purposes will be determined by the "Mortgage Lending Value".
ECO 805/2003. Article 4 definition: Mortgage Lending Value is the value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property. Speculative uses that are not permitted for the property at the date of the valuation are not considered.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
The Spanish mortgage regulation (Law 41/2007, on the 7th December which modify Law 2/1981, on the 25th of March) establishes the valuation requirements for cover assets.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Mortgage Lending Value.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Not applicable.

d) Are there specific qualification and independence requirements for valuers?
Valuation firms must be registered with the Bank of Spain to be eligible to be active in these kinds of processes. Alternatively, internal valuation departments may be created inside financial institutions to provide valuations. Both engage professionals in the valuation process. Professionals, irrespective of whether they belong to valuation firms or to financial institutions' internal valuation departments, must hold a university degree in architecture and/or engineering and are typically specialised in the valuation of a certain property type.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Valuation firms in Spain are subject to the same rules and qualification requirements regardless of the type of property or the loan amount. On the methodological side, regulation provides different methodologies for assessing the value of the property depending on the type of asset and the availability of information (method of comparison of samples of the market, replacement cost method, residual method and method of income capitalisation).

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
The Bank of Spain periodically reviews the issuance of covered bonds and the cover pool assets. However, Spanish Law does not require specific supervision of the cover pool assets. The issuer has an obligation to maintain the percentage of collateral at all times.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.

In the case of Spanish covered bonds (Cédulas Hipotecarias – CHs) a distinction is made between cover assets and eligible assets:

- Cover assets consist of the entire mortgage loan book registered in favour of the issuer. The special privileged claims of the holders of CHs are guaranteed by the cover asset pool and, if any, by the substitution assets which back up the CHs and the economic flows generated by the financial instruments linked to each issue. There are no special LTV limits.
- Eligible Assets are defined in Law 2/1981 (dated 21 March 1981) and shall be considered to determine the maximum amount of CHs issued and outstanding for a particular issuer. In this case, Spanish Law makes provisions on LTV limits for assets in order to be part of the Eligible Pool.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?

Please refer to 3(g), in the case of CHs, bondholders benefit from preferential privileged claims against the entire mortgage loan book of the issuer, with the only exception of assets serving as collateral for securitisations.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.

There is no LTV cap for the inclusion of a loan in the cover pool but there is a cap for its inclusion as an eligible asset for the calculation of the maximum amount of CHs issued and outstanding. Among other requirements, eligible assets have a soft LTV cap of 80% which can be exceeded, without under any circumstances exceeding 95%, if the mortgage loan or credit has a bank guarantee provided by a differential credit institution to the creditor or is covered by credit insurance. Notwithstanding, mortgage loans or credits that initially exceed these percentages can be used as eligible assets when, as a consequence of the repayment of their principal amount or the modification of the market value of the mortgaged properties the values do not exceed said LTV, in relation to the initial or revised valuation of the mortgaged asset.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?

No.

k) Is there any additional LTV limit on a portfolio basis?

No.

Sweden

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
The government was of the opinion that valuations already follow reliable standards so the directive's requirements have simply been added to implementing law SFS 2016:1024 and to the Swedish FSA's regulation FFFS 2016:29.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
There is no specific regulation on valuation. However, if the loans are to be used as assets in the cover pool the collateral for the loans must have been valued in line with the rules in the Swedish regulation for covered bonds.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
The Swedish Bankers' Association has developed standards for the valuation of large properties, while there are other organisations which handle authorisations and which put together standards and guidelines.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential: Market Value for lending purposes.
- Commercial: Market Value for lending purposes.

b) Based on what definition? Please provide the definition and reference to where it can be located.
The definition of "Market Value" has become institutionalised by the International Valuation Standards Council (IVSC) and the Royal Institution of Chartered Surveyors (RICS). For the IVSC, "Market Value" means "the estimated amount for which a property 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". "The Market Value shall be documented in a transparent and clear manner". The IVSC makes it clear that a "willing seller" in that context is simply a seller motivated to sell at the best price obtainable on the valuation date.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
The amortisation value, according to amortisation rules, was introduced on 1 June 2016. This value is used to determine the amortization pace.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
Please refer to 1.2 (b). Private homes are commonly valued using AVMs, while multifamily houses and commercial properties are valued manually through capitalisation and cash flow models.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
No requirements are specified.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
For mortgage lending the report is rather simple. For the valuation of larger buildings, the Swedish Bankers' Association has issued recommendation covering the following areas: definition of the task, background information, presumptions for the object and a judgement of the Market Value.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
Yes, there are differences. A valuation report for commercial properties is more detailed with information about tenants and leases periods and economic data. Nevertheless, is the valuation reports similar in the contents about the description of the property.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
No, there are no specific rules regarding AVMs. AVMs are typically only used for private homes, such as detached houses and flats. Banks have internal rules on when and where to use AVMs.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVMs are used for both purposes.

c) Do you foresee an increase in the future use of AVMs?
Yes, it will increase depending on the need of portfolio valuation and the future development of digital lending products.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Credit scoring of different clients as for example tenant owned associations will need a more automated valuation tool. The development in the Financial Technology (FinTech) can also be a demander on specific valuations tools in the future.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
The Swedish Bankers' Association's standard regarding multifamily houses and commercial properties.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
Article 19(2) is implemented by law (SFS 2016:1024) and regulations (FFFS 2016:29). The term "professionally competent" is not defined in any specific way.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
General practice differs between banks but it is prescribed with internal regulations.

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
"Sufficient independence from the credit underwriting process" is defined in law, which states that the individual performing the valuation should be independent of the credit risk assessment.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable. Please refer to 2.1 (c).

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
It is normal that lenders require more from valuation of commercial properties. However, there are no regulations on how these types of valuations should be performed, except for the requirements in the covered bond regulation. Lenders have internal rules for this.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
There is no protection of the title "Valuer" in Sweden. There are different forms of certifications such as "Valuer authorized by Samhällsbyggarna" and "Valuer certified by the Members of The Royal Institution of Chartered Surveyors (MRICS)".

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Information not available.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
Valuers need to be sufficiently competent and independent.
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
  Yes.
- Is one type of valuer typically employed more frequently than the other?
  This differs between banks.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
This differs between banks, however with increased complexity in the property market, it is increasingly likely that qualified valuers with high competence will be used.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
  Yes, valuers authorised by The Royal Institution of Chartered Surveyors (RICS) and Samhällsbyggarna.
- Lenders to use only valuers covered by professional indemnity insurance?
  No.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.
  No.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
Information not available.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
No.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
No, it has just been regarding as eligible methods. Each lender has to explain and describe the model for the regulator.
The regulator has the mandate to approve or decline the statistical method.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
In practice, commercial property price indices purchased on a regular basis from an external valuation company are used to monitor the last Market Value. These new indexed market valuations are then used for monitoring the development of LTV ratios, for example. For retail properties are AVM used as a general valuation method to monitor the last value.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
No, except in the rules for covered bonds.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Full-size valuation or desk-top valuation.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
No, not really. A decline of 15% has been mentioned but it is not explicitly mentioned in regulations.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No such requirements have been set out by the regulator.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
No such orders or guidelines have been issued by the regulator.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
All of the above.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Market Value.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
The market valuation shall by definition be set as a long-term reliable value. This means that temporary undue fluctuations in a property market must be disregarded.

d) Are there specific qualification and independence requirements for valuers?
It is the same requirements as for normal lending practises. The valuer needs to be sufficiently competent and independent.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
There are no differences.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Yes, significant price decreases must be reflected in a timely manner in the cover register so as not to overstate overcollateralisation/matching.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
The maximum LTV for residential properties is 75%, for forest and agriculture properties it is 70% and for other commercial properties the maximum LTV is 60%.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
No, but if the cover pool assets are insufficient the bondholders will have a claim on the rest of the loan after a default in pari passu with other senior claims.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
No.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
No, not the whole loan, just the portion that is above the cap.

k) Is there any additional LTV limit on a portfolio basis?
No.

The United Kingdom

By **Jennifer Bourne**, *Senior Policy Adviser*
UK Finance (formerly Council of Mortgage Lenders)

I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.
The regulator has transposed the Article into UK national regulatory rules, specifically MIPRU: MIPRU 1.3.2R
The relevant section says:
- Property valuation requirements:
  For the valuation of residential immovable property to enter into an MCD credit agreement:
  - an MCD creditor must use reliable standards for the valuation where the valuation is carried out by the MCD creditor; or
  - where the valuation is carried out by a third party, the MCD creditor must take reasonable steps to ensure that reliable standards are used.
- MIPRU 1.3.3. states that: reliable standards for the valuation of residential immovable property include internationally recognised valuation standards, in particular those developed by the International Valuation Standards Council (IVSC), the European Group of Valuers' Associations (EGoVA) or the Royal Institution of Chartered Surveyors (RICS), as well as the standards in BIPRU 3.4.77 R to BIPRU 3.4.80 R or, where applicable, MIPRU 4.2F.27 R to MIPRU 4.2F.29 R.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
Commercial valuations, as residential valuations, do not fall under a legal framework for lending purposes in the UK. Rules on valuation are instead laid down by the professional associations, the RICS in the 'Red Book' which contains practice statements. Regular revisions are also published. It is mandatory for valuers to comply with the requirements of the Red Book. The Practice Statements in the Red Book set out and define the whole range of valuers' responsibilities.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Please refer to 1 (a).

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
- Residential: Market value is used for residential valuation.
- Commercial: Valuations required are to be based on Market Value (MV) with the addition of 'Special Assumptions'. These may relate to the time scale to sell the property, planning consent or condition of the property.

b) Based on what definition? Please provide the definition and reference to where it can be located.
The definition can be found in the Royal Institution of Chartered Surveyors (RICS) red book and RICS professional standards UKVS 4.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
No answer provided.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?
In the case of residential property, the majority of secured lending assessments are still currently based upon a valuation following the inspection of the property by a qualified valuer. In recent times, external inspections of the property, and/or a valuation model have replaced full inspections in certain lower-risk circumstances. In the UK, the comparison method is almost exclusively used to value residential properties.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
There are no formal requirements with regard to the form and content of the valuation report, but the form and content are governed by the requirement for lenders to lend prudently.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The majority of valuation reports comprise a short-written report detailing construction, accommodation, condition and value, a small percentage are automated in which case the lender relies upon a figure produced by a computer program without any further information being available.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
No knowledge hereof.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?
Currently, there is no legislation or rules governing the use of AVMs, although some guidance has been issued which requires lenders to use them in a prudent manner supervised by a qualified surveyor. However, all organisations that have become or are looking to become AVM clients do typically conduct extensive accuracy tests and impact analyses before signing up and these may be shared with the national supervisor or other stakeholders. Lenders will also have their own internal guidelines around the use of AVMs.

b) For what purpose are AVMs employed in your Member State?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

In the UK, AVMs can play a role in mortgage origination, as a quality control tool in the mortgage origination process and in the monitoring and adjusting of values in the context of the portfolio valuation.

c) Do you foresee an increase in the future use of AVMs?
Yes, for low-risk lending such as lending at low LTV ratios, or remortgage.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Information not available.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
Information not available.

II. THE VALUER

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).
In the Prudential Regulation Authority's regulations, the calculation of the credit risk capital component, in relation to risk weights assigned to exposures secured by mortgages on residential property, BIPRU 3.4.77 R requires that the "property shall be valued by an independent valuer at or less than market value" and that an independent valuer is defined in BIPRU 3.4.66 R as a "person who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Please refer to 2.1 (a).

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.
Please refer to 2.1 (a).

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Please refer to 2.1 (a).

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
Yes, it is the same. They will typically need to be RICS registered/ qualified.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?
No.

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?
Lenders will require that a valuer is RICS qualified.

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

Lending regulation requires that the "property shall be valued by an independent valuer at or less than market value" and that an independent valuer is defined in BIPRU 3.4.66 R as a "person who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. In practice this will mean a RICS qualified valuer.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
RICS qualified valuers are used.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
  Valuers must hold PII insurance.
- Lenders to use only valuers covered by professional indemnity insurance?
  Lenders are not required to, but in practice would only use a valuer who was required to hold PII insurance.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.
  Not applicable.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?
80% LTV for residential loans.

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?
Monitoring must be carried out at least every three years although this test can be met by the ongoing use of house price indices. When monitoring indicates that the value of the property is likely to have risen, a lender has two options: it can either keep the value of the property as at origination or, if it wishes to revalue the property, it must carry out a review to establish the new value on a loan-by-loan basis.

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?
Statistical methods, such as house price indices, or AVMs can be used to monitor the value of a property and to identify properties that need revaluation. No criteria has been laid down but some guidance has been given. In 2007, the then FSA confirmed that "the use of AVM outputs for loan origination purposes must always fall within a process leading to a valuation that can be ascribed to an independent valuer". This guidance was then repeated in the "Building Societies Specialist Sourcebook" – now SS 20/15.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
Please refer to 3(c).

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?
No knowledge hereof.

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
No knowledge hereof.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?
A review of property valuations is required:
- If monitoring indicates that the value of a property may have risen and the firm wishes to revalue the property; or
- If monitoring indicates that the value of a property may have fallen relative to general market places; or
- Every three years when the value of the loan exceeds €3 million or 5% of capital resources of the firm.

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?
No.

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
The financial services regulator has not.

IV. VALUATION OF THE COVERED BOND COVER POOL

General points:
The questions relate to LTV requirements specific to the mortgage cover pool. As a general point, there are no specific requirements over the type of property valuations required for mortgage cover pools. When mortgages are sold into a cover pool the original lender includes a description of the lenders rules and procedures over valuations, together with a warranty that these rules have been followed when advancing a mortgage on residential property. There are no additional requirements to allow a mortgage to be included in the cover pool.

In the recent EBA report on 'Recommendations on Harmonisation of Covered Bond Frameworks in the EU' a number of best practices were identified including best practice 4: 'LTV measurement and frequency of revaluation.' The requirement was for the value of the property to be monitored and updated (at least by indexation) annually. The framework also recommended that 'the valuation of properties securing the loans should be based on transparent valuation rules and be carried out by an agent who is independent from the credit granting process.' The UK was assessed as fully aligned with this best practice.

The majority of requirements regarding the valuation of property are therefore established by general mortgage regulation and the lenders own practice and procedures and has been covered elsewhere in the questionnaire. Therefore, the responses in this section relate solely to covered bond requirements.

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
The valuation rules are provided by professional guidance/standards rather than covered bond legislation. The properties securing the mortgages are valued using UK mortgage market accepted practice. A surveyor is often used, although other methods such as automated valuation models are also accepted.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Cover assets are valued on a Market Value basis. Price decreases are fully reflected in the valuation, while in the case of price increases a 15% haircut is applied.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
There are no specific requirements for cover pool valuations. Lenders will have rules on minimum leasehold periods and acceptable construction methods.

d) Are there specific qualification and independence requirements for valuers?
Lenders will have their own requirements for accepting property valuation methods and usually employ active panel management of qualified valuers. No additional requirements for cover pool assets.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
In the UK, there have only been residential mortgage pools used for regulated covered bond programmes.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
   Valuations are required quarterly as part of stress testing requirements. These are provided in line with lenders' usual practice and involve using recognised House Price Indices (HPI) such as Halifax or Nationwide HPI, each of which reports quarterly on a regional basis.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
   Each programme has its own maximum LTV limit (typically 75%). Mortgages with LTVs above this level are permitted to be included in the pool, but a haircut is applied on the amount of the loan that exceeds this limit when assessing the collateral value of mortgages in the pool for the Asset Coverage Test (ACT). Further ACT restrictions are applied to mortgages in arrears (again the detail varies by issuer), with high LTV loans being penalised to a greater degree. Such loans can be withdrawn from the pool but this is not mandatory.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
   Yes, the whole loan is secured in the pool regardless of how much is recognised as eligible collateral for the ACT.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
   Each programme will have a maximum original LTV limit in the Mortgage Sale Agreement. This limit will typically be higher than the maximum limit noted in (g) above. For example, a loan with 95% LTV may be included but its ACT recognised amount would be restricted to 75%. LTV.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
   No, the loans are subject to a haircut rather than mandatory removal. Lenders may choose to remove loans that become inefficient for ACT purposes but are not forced to do so.

k) Is there any additional LTV limit on a portfolio basis?
   No, each loan is assessed on its own and aggregated to ensure sufficient collateral exists in the pool. Rating agencies may impose certain restrictions at an aggregate level when new loans are added to the cover pool to preserve the general characteristics of a pool.

Montenegro

By **Senka Popović**, *Real Estate Valuation Officer*
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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How is the valuation of residential property regulated in your country's national legislation? Please provide details of how valuation standards are regulated (in legislation or delivered through a professional body), indicate whether and how the standards are defined and whether and how the content of those standards are prescribed.
In Montenegro, there is no law that defines or prescribes procedures or methodologies regarding "reliable standards" for the valuation of residential and non-residential property. There is however a guideline on the methodology for determining the value of confiscated items or rights, issued by the Ministry of Finance of Montenegro in 2004. This being said, methodology prescribed by this document is not required since it has not been updated since its issuance. There are professional bodies that bring together licensed valuers who use European Valuation Standards (EVS) in the valuation process.

Commercial property

a) Is there a legal framework in your country specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
As already stated above, there is no legal framework specific to the valuation of commercial property for lending purposes.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Since there is no legal framework, valuation is usually carried out on the basis of European standards of valuation. The methodology recommended by associations of valuers of Montenegro is the one prescribed by The European Group of Valuers' Association (TEGoVA) – EVS.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your country for the valuation of property for lending purposes:
- Residential
- Commercial

Market Value is the value used for the valuation of the property of both residential and commercial objects.

b) Based on what definition? Please provide the definition and reference to where it can be located.
Market Value is the price at which the ownership right of the asset may be sold between a seller willing to sell and a buyer willing to buy the asset, within the framework of a private contract of purchase and sale, at the time of the valuation, assuming that the asset is marketed publicly, the market conditions allow the regular arrangement of the transactions on arm's length basis, and that, with respect to the nature of the asset, there is sufficient time to conduct the negotiations required for the transaction. The definition of the Market Value is provided within the State's document called "Decree on closer criteria and methodology for determining the market value of the real estate and the internal Bank's procedure for the real estate and movable collateral valuation that relies on group's Collateral Valuation Regulation. Market Value is determined by an independent valuer accepted by the bank, who is completely independent from the decision making on the risk assumption.

c) What other valuation bases are used in your country for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
Have no knowledge hereof.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your country to value properties for lending purposes in each category?
Generally, there are two methods that are applied for Real estate collateral valuation:
- Residential properties are valued based on the sales comparison method.
- Commercial properties are valued based on the income method.

In exceptional cases the cost method may also be applicable. Other methods could be used if their usage has a worthy justification, such as cost method, residual method etc. It is the sole responsibility of independent valuers to select the assumptions appropriately when preparing the valuation.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your country specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
Minimum requirements in terms of the form and the content of the valuation report are not prescribed by any legal framework

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
Each valuation report should contain information such as identification of the property that is a subject of the appraisal, its location, cadastral information, a description and a short analysis of the real estate market situation, methodology and description of the calculation used in the appraisal report etc.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.

The form and the content of valuation reports of residential and commercial property are the same. Particular information should be included in the valuation report in cases where the valued property is a specific real estate, such as a hotel, commercial building, gas station, logistics centre, factory or development site etc.

1.4 Technology & Valuation

a) Does the legal or professional framework in your country provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your country have their own internal guidelines?
There are no specific rules/guidance on the use of AVMs in Montenegro.

b) For what purpose are AVMs employed in your country?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

AVM systems are not used in Montenegro at the moment.

c) Do you foresee an increase in the future use of AVMs?
So far, there have been no signs of introduction of AVMs in Montenegro. Reliable data for the development of such systems do not exist at the moment.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Introducing Computer Assisted Mass Avaluation (CAMA) systems in Montenegro could have a positive impact on the valuation industry. These systems have already been introduced in neighbour countries such as Slovenia, Croatia or Bosnia and Herzegovina. The Central Bank of Montenegro (CBM) is already considering the possibility of introducing a register of information on the property market in Montenegro, as a qualitative source of data related to the buying, selling and renting of properties. If the development of this project is estimated to be reasonable, it will enable the monitoring of realised prices of property (mainly residential), which will, among others things, enable commercial banks to more easily assess the value of collateral.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your country (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
Have no knowledge hereof.

II. THE VALUER

2.1 Regulatory Framework

a) Please provide details of how valuers' professional competence is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how professional competence is defined and whether and how professional competence requirements are prescribed.
There are no special requirements in terms of becoming a "professionally competent" valuer. The only requirement which is obligatory for a person/company to be an valuer is a valuer license. There is no general certification body; therefore, valuers follow the codes and guidelines of the relevant institutions such as the Institute of Chartered Valuers Montenegro (IOPCG) and the National Association of Valuers in Montenegro (NUPCG) etc. These institutions are authorised to grant appropriate valuer licenses.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Generally, valuers need to have sufficient local knowledge and experience in real estate property in the location and category of the subject property, they must comply with all legal, regulatory, ethical and contractual requirements related to the valuation, valuers must perform their professional duties with appropriate expertise, punctuality, circumspection and impartially.

c) Please provide details of how sufficient independence from the credit underwriting process of valuers is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how the sufficient independence is defined and whether and how it is prescribed.
"Sufficient independence from the credit underwriting process" is not prescribed by any legal framework.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Banks have constant communication with their official valuers. Therefore, a valuer can inform the bank if he/she is the subject of any kind of pressure or similar forces that could occur during the valuation process.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
According to bank's internal bank regulations, all independent bank valuers have the same professional framework.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your country? If yes, by whom?
The use of the title of valuer is not protected in Montenegro.

b) If the title of valuer is not protected in your country, how do lenders protect themselves against the risk of 'unqualified' valuers?
Lenders usually have their official List of accepted appraisers and only qualified valuers can be on those Lists.

2.3 External v. Internal

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
In this regard, there are no rules prescribed by the Regulator. The valuation of properties, according to banks' internal procedures, has to be performed by an independent valuer accepted by the bank. Valuers have to meet minimum skills/qualifications, which are described in Bank's internal procedures.
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
- Is one type of valuer typically employed more frequently than the other?

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
No answer provided.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?

There are no such requirements.
- Lenders to use only valuers covered by professional indemnity insurance?

There are no such requirements.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
   - Is/are there legislation/rules in your country determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

   There are no such requirements. However, banks have prescribed basic responsibilities of the valuer toward the client and the bank. For further information, please refer to 2.1 (b).

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios within your country's framework for the calculation of capital in respect to residential and commercial real estate collateral?
   The regulator has not prescribed any limit concerning this issue. All LTV ratio issues are regulated by internal regulations and procedures.

b) Has the regulator in your country laid down criteria regarding more frequent monitoring where the market is subject to significant changes?
   The regulator has not prescribed any criteria regarding more frequent monitoring where the market is subject to significant change.

c) Has the regulator in your country laid down criteria regarding monitoring using statistical methods?
   The regulator has not prescribed any criteria regarding monitoring using statistical methods. Statistical method for revaluing residential properties is currently not feasible due to the lack of the data – in Montenegro there is no reliable statistical database which would constitute the basis for this method.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
   Not available.

e) Has the regulator in your country laid down criteria which define 'reviews' of the property valuation?
   According to the regulator, collateral must be revalued, and the value established during the review of the value must be properly documented.

f) Please provide a description of how valuation 'reviews' are carried out in your country, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
   We have no information that a regulator in Montenegro has prescribed a certain way of how "reviews" are carried out.

g) Has the regulator in your country laid down criteria which define 'material decline'?
   No such criteria have been prescribed.

h) Has the regulator in your country set out any data requirements specifically relating to property valuation?
   No such data requirements have been prescribed.

i) Has the regulator in your country issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
   No such executive orders have been prescribed by the regulator. The definition of the Market Value according to State's decrees and internal procedures is described in 1.2 (b).

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
   Not available.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
   Not available.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
   Not available.

d) Are there specific qualification and independence requirements for valuers?
   Not available.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
   Not available.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
   Not available.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
   Not available.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
   Not available.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
   Not available.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
   Not available.

k) Is there any additional LTV limit on a portfolio basis?
   There is no LTV limit on a portfolio basis.

Russia

By **Sergey Petrov**, *Head of Collateral Monitoring Unit*
OTP Bank, Russia

I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How is the valuation of residential property regulated in your country's national legislation? Please provide details of how valuation standards are regulated (in legislation or delivered through a professional body), indicate whether and how the standards are defined and whether and how the content of those standards are prescribed.
Valuation standards (the Federal Valuation Standards – FVS) are issued by the Ministry of Economic Development (MED) of the Russian Federation and these standards are obligatory for all professional individual valuers and apprising companies. Other legal bodies involved in the valuation process (such as banks) for their own purposes are expected to be in line with FVS in order to minimise negotiations with auditors and federal control bodies. Please find here below an overview of the different federal valuation standards:
- FVS 1 by Regulation MED #297 20/05/2015 (Common requirements and approaches);
- FVS 2 by Regulation MED #298 20/05/2015 (purposes and differentiation of values);
- FVS 7 by Regulation MED #611 25/09/2014 (valuation of real estate);
- FVS 9 by Regulation MED #327 01/06/2015 (valuation for the purpose of pledge);
- FVS 10 by Regulation MED #328 01/06/2015 (valuation of vehicles and equipment);
- FVS 12 by Regulation MED #721 17/11/2016 (calculation of liquidation value).

Commercial property

b) Is there a legal framework in your country specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
Please refer to answer 1.1(a).

c) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
There is no specific legal framework.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your country for the valuation of property for lending purposes:
- Residential (Market Value, Liquidation Value)
- Commercial (Market Value, Liquidation)

b) Based on what definition? Please provide the definition and reference to where it can be located.
In the Federal Law of valuation activity in the Russian Federation #135 of 29/07/1998 (art.3) the following is stated: The Market Value of the object of valuation is the most probable price at which a given object of valuation may be sold in the open market in a competitive environment, when parties to a transaction act reasonably, having all necessary information, and the value of the transaction does not reflect any extraordinary circumstances, i.e. when:
- one of the parties to the transaction is not obliged to dispose of the object, and the other party is not obliged to accept execution;
- the parties to the transaction are knowledgeable about the subject of the transaction and act in their own interests;
- the object of the valuation is shown in the open market through a public offer typical for similar objects of valuation;
- the transaction price represents reasonable remuneration for the object of the valuation and there is no coercion to commit to the transaction in respect of parties to the transaction from any side;
- payment for the object of the valuation is expressed in monetary terms.

The Mortgage Lending Value in local practice is similar to liquidation value prescribed by the Federal Law of valuation activity in the Russian Federation #135 of 29/07/1998 (art.3). The liquidation value is a calculated value that reflects the most probable price at which a given object of valuation may be alienated for the exposure time of the object which is less of a typical exposure time of object of assessment due to market situation, in conditions when the seller is forced to make a deal on alienation of property.[1]

c) What other valuation bases are used in your country for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
No answer provided.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your country to value properties for lending purposes in each category?
a. Residential: Comparison approach;
b. Commercial: Comparison approach, income approach, cost approach (mostly for unique objects, with a minimal weight in the total result).

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your country specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
In accordance with Federal standard of valuation #3, the valuation report must specify the date of the report and its number. Regardless of the nature of the object of the valuation the valuation report must contain the following information:

[1] For further information, please visit http://docs.cntd.ru/document/901713615.

- Specification that the valuation has been performed in accordance with the requirements of Federal valuation standards;
- Applied approaches for valuation;
- Assumptions used in the valuation process;
- Information about the customer and about the valuer (valuers), information about the signatory (signatories) to the valuation report (including surname, name and (if available) patronymic, contact phone number, mailing address, e-mail address of the valuer, and information about membership of the valuer of the self-regulatory organisation of valuers), as well as about the legal entity with which the valuer (valuers) concluded (entered into) a contract of employment, including statement of the independence of such an entity and the valuer (valuers) in accordance with the requirements of the legislation of the Russian Federation about estimated activity. This subparagraph entered into force by way of the order of the Ministry of Economic Development of Russia on December 6, 2016 N 785.
- Information about all parties involved in the performing of the valuation and the preparation of the valuation report, indicating the qualifications and the extent of participation of organisations and experts in the valuation of the object in question;
- The main facts and conclusions, which should contain:
  - Explanation of reasons for the valuation;
  - General information that identifies the object of the valuation;
  - The valuation results obtained by applying different valuation approaches;
  - The total value of the object of the valuation;
  - Restrictions and limitations of the application of the total cost.
- Description of the valuation with an indication of the list of documents used by the valuer to establish the quantitative and qualitative characteristics of the object and whether the property is owned by a legal person, also the details of the legal entity (including full and (if available) abbreviated name, date of state registration primary state registration number) and the book value of this object (if any);
- A market analysis of the facility assessment, pricing factors, and external factors that affect its value;
- Description of the valuation process and the object of the valuation in terms of approach (approaches). The report must describe the rationale for the selection of the valuation approaches used and methods within each of the approaches, the way in which the value of the object of the valuation was reached, also refererring to how the approaches were deployed, and the relevant calculations. In this case, the description should enable the user of the valuation report to understand the logic of the process of determining the value and the method (methods) selected by the valuer, as well as the object of the valuation defined by the type of value and intended use of the valuation results;
- Description of procedures for coordinating assessment results and conclusions obtained on the basis of the calculations using different approaches and different methods within each approach to determine the total value or the total value of the result of one of the approaches.

The valuation report may include the calculated values and conclusions based on the results of studies provided for the purposes of theassessment that are not a result of the valuation in accordance with the Federal standard "the Purpose of valuation and types of value (FVS No. 2)". The report may also contain other information necessary for a complete and unambiguous interpretation of the results of the valuation as reflected in the report. The Annex to the valuation report must contain copies of documents used by the valuer to establish the quantitative and qualitative characteristics of the object, including title and supporting documents, a technical inventory, expert opinions, and other documents on the object of the valuation (if available).

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The form is prescribed for independent valuation companies and individual valuers which are mebmers of self regulating organisations. Only valuation reports issued by such valuers are recognised by officials.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The used forms and methodologies are based on the same principles. There are refinements and particular calculations for special cases, such as agricultural factories, petrol stations, lidos, spas, hotels, offices, development sites, etc.

1.4 Technology & Valuation

a) Does the legal or professional framework in your country provide specific rules/ guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your country have their own internal guidelines?
No, there are no specific rules/guidance on the use of AVMs.

b) For what purpose are AVMs employed in your country?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

So-called AVMs are not used in Russia at the moment.

c) Do you foresee an increase in the future use of AVMs?
Only if reliable database with suitable content will be available.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Some consulting companies are trying to create such a system but it is far from being a market product.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your country (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
At the moment legislation related to the valuation process is being drafted, and further improvements in relation to transparency of the valuation process are therefore excepted, also due to the regulatory limitation of assumptions within the process.

II. THE VALUER

2.1 Regulatory Framework

a) Please provide details of how valuers' professional competence is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how professional competence is defined and whether and how professional competence requirements are prescribed.
According to a regulation of the Ministry of Federal Property (22-05-2003 ZR-410060), valuers performing commercial valuations must have a qualification confirmed by a diploma, and should be included in the official register of self-regulating organisations. During the course of his/her professional activity, the valuer is obliged to improve his/hers qualifications every three years (at least 100 hours of learning) in any authorised educational institution.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Professional competence requirements are prescribed.

c) Please provide details of how sufficient independence from the credit underwriting process of valuers is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how the sufficient independence is defined and whether and how it is prescribed.
No such official regulation exists in Russia.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Employees involved in the valuation process within a bank are isolated from any credit decision-making processes, being part of the risk management division. All external valuation reports are verified by authorised bank employees.

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The regulation for all valuers is the same: the federal law of valuation activity in the Russian Federation #135 of 29/07/1998.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your country? If yes, by whom?
There are no restrictions on the use of 'valuer', but the person who declares him or herself a valuer must have an up-to-date diploma and simultaneously be a member of a self-regulating organisation.

b) If the title of valuer is not protected in your country, how do lenders protect themselves against the risk of 'unqualified' valuers?
The member list of any self-regulating organisation of valuers is available online.

2.3 External v. Internal

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
There are common requirements for all valuers. Each valuer has to have a diploma and be a member of self-regulating organisation. Banks usually use external valuationreports at the predisbursement stage and valuations conducted by the staff of the internal collateral service for the monitoring of collateral (because the Central Bank of Russia requires quarterly revaluations).
   - If yes, do credit institutions have the possibility to employ both internal and external valuers?
     In normal practise, external valuers are hired by the client; the banks simply verifies the valuationvaluation report. Internal valuations and verification of valuation reportsvaluation reports is done by the staff of the collateral service, who often also have a diploma.
   - Is one type of valuer typically employed more frequently than the other?
     No anwer provided.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
There are no such a legislation/rules in local practice.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes require:
   - Valuers to have professional indemnity insurance cover?
   - Lenders to use only valuers covered by professional indemnity insurance?

   Valuers as private individuals must have insurance wuth a minimum coverage of RUR 300 000, while valuation companies must have a minimum coverage of RUR 5 000 000. In addition, any tangible property which serves as security for a loan shall be insured against damage.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
   - Is/are there legislation/rules in your country determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.
     The existence of valuer insurance is required by the Federal Law of valuation activity in the Russian Federation #135 of 29/07/1998.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios within your country's framework for the calculation of capital in respect to residential and commercial real estate collateral?
In Russia, the "maximum eligible asset LTV ratios" indicator does not exist within the framework for the calculation of a bank's capital.

b) Has the regulator in your country laid down criteria regarding more frequent monitoring where the market is subject to significant changes?
The Central Bank of Russia has not provided such criteria.

c) Has the regulator in your country laid down criteria regarding monitoring using statistical methods?
There are no such criteria.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
There is no such a practice.

e) Has the regulator in your country laid down criteria which define 'reviews' of the property valuation?
The Central Bank of Russia has not provided such criteria but in general practice, the Central Bank expects that:
   - External valuers strictly follow the federal standards of valuationvaluation if they produce valuation reportsvaluation. If there is a "valuationvaluation opinion" (which is a document with no legal power) requirements are not so strict, but valuationvaluation has to be in line with federal standards.
   - Internal valuationvaluations performed by banks are in line with commonly accepted methods of valuation.

f) Please provide a description of how valutaion 'reviews' are carried out in your country, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
Reviews carried out by external valuers normally take the form of a full-size report while reviews carried out by bank employees in the collateral unit typically take the form of a desk-top valuation.

g) Has the regulator in your country laid down criteria which define material decline?
The Central Bank do not specify such criteria.

h) Has the regulator in your country set out any data requirements specifically relating to property valuation?
All requirements are reflected within the federal valuation standards (FVS) imposed by the Ministry of Economical Development and specified in FVS 7 (valua-

tion of real estate), FVS 8 (valuation of enterprise) , FVS 10 (valuation of equipment and vehicles and FVS 11 (valuation of intellectual property).

i) Has the regulator in your country issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
Please refer to answer 2.1 (b).

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
In Russia, the following regulations are relevant: Regulation of Central Bank #579P from 20/03/2017 and Regulation of Ministry of Finance #217n from 28/12/2015 which impose IFRS 13 in local practice.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Market Value.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
If the property has any features which make it significantly different from analogues, those features are to be considered.

d) Are there specific qualification and independence requirements for valuers?
Special qualification and registration rules apply to external valuers.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Not available.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Not available.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Not available.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
Not available.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
Not available.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
Not available.

k) Is there any additional LTV limit on a portfolio basis?
No.

Serbia

By **Ćetko Okiljević**, *Head of Portfolio Risk Management and Retail Collection Directorate OTP Bank, Serbia*

By **Anita Rajda**, *Team Leader for Collateral Management OTP Bank, Serbia*

I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How is the valuation of residential property regulated in your country's national legislation? Please provide details of how valuation standards are regulated (in legislation or delivered through a professional body), indicate whether and how the standards are defined and whether and how the content of those standards are prescribed.
The valuation of real estate is regulated by the „Law of valuers of real estate value". The Law was adopted on 29 December 2016 and took effect in in July 2017. In accordance with this law, the valuation of residential property will be defined by the National standards and ethics code (which at the time of writing has not yet been adopted).

Commercial property

a) Is there a legal framework in your country specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.
The valuation of real estate is regulated by the „Law of valuers of real estate value". The Law was adopted on 29 December 2016 and took effect in in July 2017. In accordance with this law, the valuation of residential property will be defined by the National standards and ethics code (which at the time of writing has not yet been adopted).

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.
Not applicable.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your country for the valuation of property for lending purposes:
- Residential
- Commercial

The typical valuation base for residential and commercial properties is the Market Value.

b) Based on what definition? Please provide the definition and reference to where it can be located.
In accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards – Global (9th Edition), the Market Value of the property is defined as: *"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".*

c) What other valuation bases are used in your country for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.
No answer provided.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your country to value properties for lending purposes in each category?
Residential properties:
- Comparison method;
- Depreciated replacement cost method;
- Income method.

Commercial properties:
- Comparison method;
- Depreciated replacement cost method;
- Income method.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your country specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
There is no mandatory comprehensive legal framework for valuation reports in Serbia. Banks use their own methodology. The valuation report should contain the following:
- The subject of the valuation;
- The identification of the property, the valued legal title;
- The exact task of the valuer (determining the Market Value and Mortgage Lending Value for bank loans);
- The use of the property (used by the owner, rented out, kept for investment purposes);
- The valuation methodology or methodologies used and the related justification;
- The proposed Mortgage Lending Value based on the established Market Value;
- The date of the site visit and the date of preparation of the report;
- The rights relating to the use of the valuation report (not to be provided…);
- The documentation and identification of the sources of the data used;
- The site visit and its date;
- The author and the participants in compiling the material, and the proof of their professional certification;
- The authenticated or electronic signature of the valuer to validate the established value;

- A description of the property according to the land registry and in real terms, the description of construction authority provisions, building rules and their expected changes;
- The geographical situation, demography, economy of the environment in which the property is located and the description of other important issues from the point of view of the valuation;
- A description of the economic environment in which the property is located that determines the current use of the property, its value and the future possibilities;
- A description of the real estate market situation, including factual data;
- A description of the immediate environment in which the property is located, including the situation of the property in the settlement network and its situation within the settlement, its accessibility, public transport connections, infrastructure;
- A description of the use of the property, including the past, present and future users, the way in which the property is used, the intensity of use and the related financial consequences;
- A description of the land, including the size, shape, relief, greenery, available public utilities, the extent to which it has been built on, the proportion of the land that can be built on, the buildings and features;
- A description of the buildings, applying the "from far to close" principle, a detailed description of the primary and secondary building structures, and a description of their condition;
- A definition of the applied measures to ensure comparability (areas: gross, net, useful...);
- Protection of the property (either monumental or natural protection);
- In the valuation report the presumptions must be listed based on which the valuation is valid. The steps and calculations of the valuation must be described in detail, in a straightforward and verifiable manner in the valuation report.

The valuation report must be supported by annexes:

- A copy of the authenticated title deed not older than 7 days before determining the Mortgage Lending Value;
- A copy of the original land registry map and an extract of the regulation plan if this is necessary for the identification of the property or for the valuation procedure;
- The technical drawings of the property;
- Photos of the property, inside and outside;
- Contracts and other documents that are important to understand the legal situation of the property, including documents about mortgages;
- Any other fact or data considered during the valuation.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
The content of the valuation report for lending purposes is prescribed by banks.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The form and content for valuation of commercial and residential properties are based on the same principles. The comparison method is most often used for residential property, while the capitalisation method is most often used for commercial property.

1.4 Technology & Valuation

a) Does the legal or professional framework in your country provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your country have their own internal guidelines?
AVMs are currently not used in the Republic of Serbia.

b) For what purpose are AVMs employed in your country?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
- Mortgage Origination & others

Not available.

c) Do you foresee an increase in the future use of AVMs?
There is currently no potential to use software for valuation. First of all, elementary things like licenses and legal bases must be settled.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
Excel and Argus are the most used systems for the valuation development. Republic Geodetic Authority and DOMEX are used, as a source of information, for additional information.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your country (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
Most valuers prefer the German and English valuation models. Big valuation companies are trying to implement their systems, where possible, due to the experience in these countries. In addition, the National Bank of Serbia is working on a central register for the average prices on the real estate market. It is not yet operational.

II. THE VALUER

2.1 Regulatory Framework

a) Please provide details of how valuers' professional competence is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how professional competence is defined and whether and how professional competence requirements are prescribed.
Professional competence requirements are prescribed by law. The valuation of properties, residential and commercial, may only be conducted by court appointed experts registered in the official register managed by the Ministry of Justice. As of July 2017, professional competence requirements are prescribed by the "Law of valuers of real estate value" under the jurisdiction of the Ministry of Finance.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
Not applicable.

c) Please provide details of how sufficient independence from the credit underwriting process of valuers is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how the sufficient independence is defined and whether and how it is prescribed.
The principle of independence is defined in the following pieces of legislation of the National Bank of Serbia: "Decision on the classification of Bank Balance sheet assets and off-balance sheet items", article 2, paragraph 4 and "Decision of capital adequacy of Banks", article 2, paragraph 25, defines: "An Authorised valuer is a court expert of relevant profession, a legal entity established to perform expertise activities in accordance with the law on requirements for the performance of expertise activities or an authority which, pursuant to the law governing tax procedures and tax administration, is competent for conducting tax proceedings; this person shall not be a person related to the borrower in the manner set forth by the Law on Banks and shall not be involved in the process of loan approval or sale of real estate".

a) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Not applicable.

b) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for all valuers.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your country? If yes, by whom?
As of July 2017, the title of valuer is protected by the Ministry of Finance, replacing the Ministry of Justice in this role, in accordance with the new "Law of valuers of real estate value.

b) If the title of valuer is not protected in your country, how do lenders protect themselves against the risk of 'unqualified' valuers?
Valuers are registered in the Register of court experts.

2.3 External v. Internal

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
It is briefly defined through legislation of National Bank of Serbia: "Decision on the classification of Bank Balance sheet assets and off-balance sheet items" – "Authorised value is a court expert of relevant profession, a legal entity established to perform expertise activities in accordance with the law on requirements for the performance of expertise activities or an authority which, pursuant to the law governing tax procedures and tax administration, is competent for conducting tax proceedings.
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
Yes, they do.
- Is one type of valuer typically employed more frequently than the other?
Typically, most Serbian banks employ authorised external valuers (with whom they have signed a contract on business cooperation). Internal valuers are responsible for the inspection and control of valuations performed by external valuers, but in some specific cases they also perform valuations, as well as establishing a network of external valuers. Some banks employ internal valuers too.

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Typically, most Serbian banks employ authorised external valuers.

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
Currently no, but under the new law "Law of valuers of real estate value" which took effect in July 2017, certified valuers have to have professional indemnity insurance with coverage of 50.000 euros.
- Lenders to use only valuers covered by professional indemnity insurance?
No answer provided.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your country determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.
The valuer shall be liable for all obligations with his/her entire assets according to the Law on abuse of authority.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios within your country's framework for the calculation of capital in respect to residential and commercial real estate collateral?
Maximum eligible asset LTV ratios are defined in the document Capital Adequacy Decision for Banks (article 53 and 54):
- Residential real estate: 35% risk weight- 80% LTV ratio
- Commercial real estate: 50% risk weight-50% LTV ratio

b) Has the regulator in your country laid down criteria regarding more frequent monitoring where the market is subject to significant changes?
Article 29, paragraph 1, point 1, indent 2 of the "Decision on the classification of bank balance sheet assets and off-balance sheet items" of the National Bank of Serbia requires the following: *"Adequate collateral shall include mortgaged property provided that the bank regularly monitors the value of the real estate property and, except in the case of mortgaged residential real estate property where the amount of the outstanding bank exposure does not exceed 40% of its value less the sum of all higher priority claims over such property, determines the Market Value of such property at least once every three years, or more often in the event of significant changes in property market conditions or physical changes to the property".* According to Article 29, paragraph 3, *"regular monitoring of the value of real estate property described in paragraph 1, point 1, indent 2 means verification of such value on the basis of available data and information, including the use of statistical models, where the bank must conduct this verification at least once a year from commercial real estates and at least once every year for residential real estate property".*

c) Has the regulator in your country laid down criteria regarding monitoring using statistical methods?
Yes, According to Article 29, paragraph 3, *"regular monitoring of the value of real estate property described in paragraph 1, point 1, indent 2 means verification of such value on the basis of available data and information, including the use of statistical models, where the bank must conduct this verification at least once a year from commercial real estates and at least once every year for residential real estate property".* but on other hand, according to information received from the National Bank Serbia (via direct contact), it supports revaluation based on statistical methods.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
The regulator has not provided any definition or description of required methods/tools.

e) Has the regulator in your country laid down criteria which define 'reviews' of the property valuation?
The regulator has issues the following criteria: "regular monitoring of the value of real estate property means verification of such value on the basis of available data and information, including the use of statistical models, where the bank must conduct this verification at least once a year from commercial real estates and at least every three year for residential real estate property".

f) Please provide a description of how valuation 'reviews' are carried out in your country, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.
   In the majority of cases, a full-size valuation report is prepared, followed by desktop valuation and tax administration decisions related to the Market Value of property.

g) Has the regulator in your country laid down criteria which define 'material decline'?
   No such criteria have been laid down by the regulator.

h) Has the regulator in your country set out any data requirements specifically relating to property valuation?
   No, valuers apply European Valuation Standards prepared by The European Group of Valuers' Associations (TEGoVA) and International Valuation Standards.

i) Has the regulator in your country issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
   No, the regulator has not issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value". The closest to this kind of order is the definition of Market Value in the National Bank of Serbia's "Decision on the classification of bank balance sheet assets and off-balance sheet items". Article 1, paragraph 1, point 2, sub point 5 defines: *"Market Value of real estate is the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion; his value shall be transparently and clearly documented and shall be determined by an authorised valuer".*

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
   No, because the mortgage covered pool and mortgage backed securities in general are still not regulated by law.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
   Not available.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
   Not available.

d) Are there specific qualification and independence requirements for valuers?
   No answer provided.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
   Not available.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
   Not available.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
   Not available.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
   Not available.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
   Not available.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
   Not available.

k) Is there any additional LTV limit on a portfolio basis?
   No answer provided.

Ukraine

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I. THE VALUATION

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How is the valuation of residential property regulated in your country's national legislation? Please provide details of how valuation standards are regulated (in legislation or delivered through a professional body), indicate whether and how *the standards* are defined and whether and how the content of those standards are prescribed.

Valuation is regulated by a set of laws of Parliament as well as by decrees issued by the National Bank of Ukraine (NBU) and the Cabinet of Ministers of Ukraine (CMU).

- Laws of Ukraine:
  - "On Land Valuation";
  - "On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine".
- Board Resolutions of the NBU:
  - No. 351 "On Approval the Regulation on about determination of Ukraine of size of credit risk banks on active bank transactions";
- Resolutions of the CMU:
  - National Standard No. 1 "General Foundations of Appraisal of Property and Property Rights" CMU Resolution dated September 10, 2003; No. 1440;
  - National Standard No. 2 "Appraisal of Real Estate" Resolution of the CMU dated October 28, 2004; No. 1442
  - National Standard No. 3 "Appraisal of Integral Property" Resolution of the CMU dated November 29, 2006; No. 1655;

Commercial property

a) Is there a legal framework in your country specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.

There is no specific legal framework for the valuation of commercial property. The regulations for residential property and commercial property are the same.

a) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.

There is no specific legal framework in operation. Please refer to 1.1(a)

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your country for the valuation of property for lending purposes:

- Residential: According to Ukrainian legislation there are two valuation bases, the Market Value and the Liquidation Value. Banks typically used an extra internal methodology to calculate the weighted collateral value (acceptance value).
- Commercial: According to Ukrainian legislation there are two valuation bases, the Market Value and the Liquidation Value. Banks typically used an extra internal methodology to calculate the weighted collateral value (acceptance value).

b) Based on what definition? Please provide the definition and reference to where it can be located.

Market value means: "the price at which the ownership right of the asset may be sold between a seller willing to sell and a buyer willing to buy the asset, within the framework of a private contract of purchase and sale, at the time of the valuation, assuming that the asset is marketed publicly, the market conditions allow the regular arrangement of the transactions, and that, with respect to the nature of the asset, there is sufficient time to conduct the negotiations required for the transaction".

Liquidation value means: "a value determined in the course of the real estate valuation at which the real estate can be sold in the event of the customer's default—in the scope of forced sale—within a relatively short time".

Weighted collateral value constitutes the baseline for the value accepted by the financial institution; it can vary depending on the collateral type (published price, market price, blocked amount, etc.) and other types of specific conditions.

c) What other valuation bases are used in your country for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.

No answer provided.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your country to value properties for lending purposes in each category?

All valuation reports must contain at least two types of valuation approaches (depending on the individual bank requirements). These three approaches can be used for commercial and residential property without any restrictions.

- Residential Properties:
  - Comparative method
  - Income method
  - Cost method
- Commercial Properties:
  - Comparative method
  - Income method
  - Cost method

Comparative approach: In determining a property value it is advisable to use the comparative approach in most cases. The approach is based on a study of market demand and supply of property maximally close to its technical, physical characteristics, location and more. The method is based on the principle of substitution, according to which a rational buyer will not pay for the property more than the cost of a similar property for sale having the same serviceability. In determining property value by this method, the following must be considered:

- Market conditions and the amount of available information about transactions with similar properties on the market. Accuracy will largely depend on

the quantity and quality of information collected. In case of sufficient available information it is necessary to ensure that the selected objects are similar in function and parameters regarding the valuated one;
- Exceptional circumstances that may induce the seller to establish the price of an object similar to the valued one (contribution to the authorised capital, property alienation to a third person by the court, inheriting, etc.);
- Differences that distinguish the analogic property from the subject property;
- Make a prediction of future market situation (at least for liabilities' duration);
- This is a basic methodological approach in determining property collateral value offered as security.

Income Approach: The essence of generally defined approaches for determining a company's value in terms of profitability is based on the fact that a potential investor will pay more for the company than the present value of future income from business ownership. In other words, the subject property according to the income method is based on the grounds of a typical investor who determines the object value based on the expected profit that he can get in future from its operation compared to alternative investment. This methodological approach may not always be used as it provides valuation of the current object. At the same time, the facility can be taken out of operation.

Methods for value determined by the income method are divided into two approaches:
- The direct income capitalisation method;
- The cash flow discounting method.

Cost approach: The basis of the cost approach comprises replacement or interchanged cost of the object. Calculating the object value by the cost approach is performed using an estimation method of the cost of a single parameter that is most widely used in local valuation practice. This method is based on a comparison of the unit cost of real estate consumer properties (1 m2 of living space, 1 m3 of building volume, etc.) of the valued object to the value of a similar unit measurement of a similar construction.

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your country specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.
All special requirements pertaining to the form and content of a valuation report are prescribed in the resolutions of the CMU (mentioned in Section 1.1).

General requirements for the structure and content of the report on the valuation of property:
- Each page must be numbered and stitched together;
- The report should have a title page;
- Next to the title page there must be a conclusion of the valuation of the cost. The conclusion of the value of the valuation should include market and liquidation value and must be signed by the contractor and the supervisor valuers;
- Property valuation reports should include:
  Terms:
  - Valuation carried out for the Bank;
  - Information on the owner of the property;
  - Valuer;
  - Basis for the valuation of the property;
  - Object of the valuation indicating the full address;
  - Purpose of the valuation;
  - Function of the valuation;
  - Date of the estimation;
  - Period of the report;
  - Marketing period;
  - NBU currency exchange rates on the valuation date (if used).

  Description of the valuation:
  - Assessment of the maps, which indicate the object of the valuation;
  - Brief description of the legal status of the valuation;
  - Description of the composition and characteristics of the valuation should be exhaustive and concise, and give an unambiguous understanding of the subject of the valuation;
  - Detailed plan of real estate, according to official documents.

- Market Analysis: This section should give an idea of market segmentation, the level of prices, demand, volume and location of the valuation on a particular segment. The justification of the application of a particular approach is based on information from the market analysis of the valuation. Information in the section "Market Analysis" should be based on confirmed sources including links.
- Analysis of the most effective use of the valuation: This section provides a justification and an opinion on the most effective use of the valuation. The justification of the most efficient use should be confirmed by calculations in the case where the most effective use of valuation differs from current use.
- Choice and justification of approaches and methods used to assess the facility: This section should briefly describe the approach chosen, justification for the use (or non-use) approach and calculation algorithms underpinning valuation methods used within the approach to valuation.
- Determining the cost of the valuation in accordance with the selected approaches and methods: This section should be set out in its expanded form. Initial data on which the calculations are performed must be confirmed by showing the sources and contact information.
- Determination of the residual value of the valuation: It is necessary to briefly present the calculation of the liquidation value of the object describing the main factors.
- Reconciliation of the results of the calculations: This section contains the rationale for the choice of simulation results for a specific approach and opinion on the value derived from the valuation. If proposed collateral has low level of liquidity and cannot be realised in the market, this information should be expressed in the report. Identification of the absence of this information in the valuation of this property is an important reason for the rejection of further cooperation.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?
All valuation reports must fulfil minimum requirements according to Ukrainian law. Otherwise, reports cannot be accepted as valuation reports. Any valuer can prepare a valuation report on his own but this report must be according to the requirements.

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.
The forms and methodologies used are based on the same principles. There can be refinements and particular calculations for special cases, like agricultural factories, petrol stations, lidos, spas, hotels, offices, development sites, etc.

1.4 Technology & Valuation

a) Does the legal or professional framework in your country provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your country have their own internal guidelines?
There are no specific rules/guidance on the use of AVMs.

b) For what purpose are AVMs employed in your country?
- Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)

- Mortgage Origination & others

There is no use of so called AVMs in the Ukraine at the moment.

c) Do you foresee an increase in the future use of AVMs?
Only if reliable database with suitable content will be available.

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.
No information regarding such potential technological developments.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your country (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.
There is a list of special valuation organisations (non-governmental):
- Association of Bank Valuation Experts of Ukraine;
- Ukrainian Society of Valuers;
- Etc.

II. THE VALUER

2.1 Regulatory Framework

a) Please provide details of how valuers' professional competence is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how professional competence is defined and whether and how professional competence requirements are prescribed.
In Ukraine, the system of valuer certification is under the control of the State Property Fund of Ukraine. Banks normally appoint professionals holding a university degree (degree of engineering, economy, agriculture, law) and in possession of a special certificate.

a) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?
The valuer certification process (examination and an additional 2-year course of valuation qualification) is under the control of the State Property Fund of Ukraine and is mandatory for professional valuers.

b) Please provide details of how sufficient independence from the credit underwriting process of valuers is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how the sufficient independence is defined and whether and how it is prescribed.
This issue is regulated by Ukrainian legislation (Law of Ukraine "On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine", National Standards etc.) and internal documents of the bank (collateral valuation regulation, credit policy, collateral management policy).

b) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?
Sufficient independence is prescribed. Real-estate agents (basic qualification) are only allowed to value those properties what they are handling but these valuation reports cannot be used for lending purposes.

c) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.
The framework is the same for all valuers.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your country? If yes, by whom?
There are some restrictions on the use of 'valuer' and 'real estate expert' titles in the Ukraine. According to Ukrainian legislation, only certified valuers can use this title in the preparation and signing of valuation reports.

b) If the title of valuer is not protected in your country, how do lenders protect themselves against the risk of 'unqualified' valuers?
A lender has to check qualification certificates and all other mandatory documents in case of cooperation between lender and valuer. Lenders can accept the risk of cooperation without certified appraisal at their own risk.

2.3 External v. Internal

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
Yes, those carrying out valuations must have accredited qualifications and should be registered by the State Property Fund of Ukraine.
- If yes, do credit institutions have the possibility to employ both internal and external valuers?
  Valuations are carried out by both internal and external valuers (valuation companies which have been bank accredited).
- Is one type of valuer typically employed more frequently than the other?
  Most Ukrainian banks operate on the basis of a subcontracting partnerships with valuers (the report and the main part of the work is carried out by external valuers and checked by internal valuers). Internal valuers (who are typically highly educated and qualified valuers) supervise and approve the subcontractors' work and prepare more complex valuations that are generally considered to be of a higher quality than external valuations in the Ukraine. The valuation of real estate can be carried out by qualified internal staff (regulated by a special, internal procedure).

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?
Most Ukrainian banks operate on the basis of subcontracting partnerships with appraisers (the report and the main part of the work is carried out by external valuers and checked by internal valuers).

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your country specific to the valuation of property for lending purposes require:
- Valuers to have professional indemnity insurance cover?
- Lenders to use only valuers covered by professional indemnity insurance?

There is no mandatory insurance to cover valuation activities in Ukrainian legislation. Some companies sign a special agreement with an insurance company for risk hedging.

b) If there are no such requirements, how are lenders/valuers covered for the risk?
- Is/are there legislation/rules in your country determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

The Ukrainian legislation does not include such requirements for valuation companies.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

a) What are the maximum eligible asset LTV ratios within your country's framework for the calculation of capital in respect to residential and commercial real estate collateral?
It depends on the type of credit product and the requirements of the credit policy.

b) Has the regulator in your country laid down criteria regarding more frequent monitoring where the market is subject to significant changes?
In case of significant changes in market conditions, specific bank employees must initiate extraordinary monitoring of the collateral. However, according to the requirements of the NBU, revaluation should be done at least once a year.

c) Has the regulator in your country laid down criteria regarding more frequent monitoring where the market is subject to significant changes?
No.

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.
There is no common national regulation on applied methodology.

e) Has the regulator in your country laid down criteria which define 'review' of the property valuation?
Yes, NBU resolution No. 351 "On Approval the Regulation on about determination of Ukraine of size of credit risk banks on active bank transactions" dated June 30, 2016 (hereinafter referred to as NBU Regulation No. 351) prescribes mandatory reviews of the following collateral: Industrial property complexes, residential real estate; commercial and industrial real estate, land, vehicles, equipment, cars, other equipment (office equipment, IT) – once per year.

f) Please provide a description of how valuation 'reviews' are carried out in your country, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility valuation or alike.
- Industrial property complexes (individual valuation only);
- Residential real estate; commercial and industrial real estate, land, vehicles, equipment, cars, other equipment (office equipment, IT) – (individual/portfolio valuation, depends on type and value of collateral);

g) Has the regulator in your country laid down criteria which define 'material decline'?
No, there are no such criteria.

h) Has the regulator in your country set out any data requirements specifically relating to property valuation?
No.

i) Has the regulator in your country issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?
- The Ukrainian laws for these issues are the following:
  - "On Collateral";
  - "On Land Valuation";
- Resolutions of the CMU:
  - National Standard No. 1 "General Foundations of Appraisal of Property and Property Rights" CMU Resolution dated September 10, 2003; No. 1440;
  - National Standard No. 2 "Appraisal of Real Estate" Resolution of the CMU dated October 28, 2004; No. 1442
  - National Standard No. 3 "Appraisal of Integral Property" Resolution of the CMU dated November 29, 2006; No. 1655;
  - National Standard No. 4 "Appraisal of Intellectual Property Rights" Resolution of the CMU dated October 3, 2007; No. 1185.

IV. VALUATION OF THE COVERED BOND COVER POOL

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?
Not available.

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?
Not available.

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?
Not available.

d) Are there specific qualification and independence requirements for valuers?
Not available.

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?
Not available.

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?
Not available.

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.
Not available.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?
Not available.

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.
Not available.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?
Not available.

k) Is there any additional LTV limit on a portfolio basis?
Not available.

LEGAL FRAMEWORK

The legal articles referred to in the introductory articles are listed here below in their exact wording:

Mortgage Credit Directive (MCD) 2014/17/EU (available *here*):

- **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 (1). The provisions of this Directive relating to property valuation standards can be complied with for example through law or self-regulation

- **Article 19 (Property valuation):**

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 shall be kept by the creditor.

Capital Requirements Regulation (CRR) (EU) No 575/2013 (available *here*):

- **Article 4 (Definitions) (Extract):**

(74) "mortgage lending value" means the value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property;

(76) "market value" means, for the purposes of immovable property, the estimated amount for which the property 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;

- **Article 124 (Exposures secured by mortgages on immovable property) (Extract):**

1. An exposure or any part of an exposure fully secured by mortgage on immovable property shall be assigned a risk weight of 100 %, where the conditions under Article 125 or 126 are not met, except for any part of the exposure which is assigned to another exposure class. The part of the exposure that exceeds the mortgage value of the immovable property shall be assigned the risk weight applicable to the unsecured exposures of the counterparty involved.

The part of an exposure treated as fully secured by immovable property shall not be higher than the pledged amount of the market value or in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions, the mortgage lending value of the property in question.

2. Based on the data collected under Article 101, and any other relevant indicators, the competent authorities shall periodically, and at least annually, assess whether the risk-weight of 35 % for exposures secured by mortgages on residential property referred to in Article 125 and the risk weight of 50 % for exposures secured on commercial immovable property referred to in Article 126 located in their territory are appropriately based on:

(a) the loss experience of exposures secured by immovable property;

(b) forward-looking immovable property markets developments;

Competent authorities may set a higher risk weight or stricter criteria than those set out in Article 125(2) and Article 126(2), where appropriate, on the basis of financial stability considerations.

For exposures secured by mortgages on residential property, the competent authority shall set the risk weight at a percentage from 35 % through 150 %,

For exposures secured on commercial immovable property, the competent authority shall set the risk weight at a percentage from 50 % through 150 %,

Within these ranges, the higher risk weight shall be set based on loss experience and taking into account forward-looking markets developments and financial stability considerations. Where the assessment demonstrates that the risk weights set out in Article 125(2) and Article 126(2) do not reflect the actual risks related to one or more property segments of such exposures, fully secured by mortgages on residential property or on commercial immovable property located in one or more parts of its territory, the competent authorities shall set, for those property segments of exposures, a higher risk weight corresponding to the actual risks.

The competent authorities shall consult EBA on the adjustments to the risk weights and criteria applied, which will be calculated in accordance with the criteria set out in this paragraph as specified by the regulatory technical standards referred to in paragraph 4 of this Article. EBA shall publish the risk weights and criteria that the competent authorities set for exposures referred to in Articles 125, 126 and 199(1)(a).

- **Article 125 (Exposures fully and completely secured by mortgages on residential property):**

1. Unless otherwise decided by the competent authorities in accordance with Article 124(2), exposures fully and completely secured by mortgages on residential property shall be treated as follows:

(a) exposures or any part of an exposure fully and completely secured by mortgages on residential property which is or shall be occupied or let by the owner, or the beneficial owner in the case of personal investment companies, shall be assigned a risk weight of 35 %;

(b) exposures to a tenant under a property leasing transaction concerning residential property under which the institution is the lessor and the tenant has an option to purchase, shall be assigned a risk weight of 35 % provided that the exposure of the institution is fully and completely secured by its ownership of the property.

2. Institutions shall consider an exposure or any part of an exposure as fully and completely secured for the purposes of paragraph 1 only if the following conditions are met:

(a) the value of the property shall not materially depend upon the credit quality of the borrower. Institutions may exclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower from their determination of the materiality of such dependence;

(b) the risk of the borrower shall not materially depend upon the performance of the underlying property or project, but on the underlying capacity of the borrower to repay the debt from other sources, and as a consequence, the repayment of the facility shall not materially depend on any cash flow generated by the underlying property serving as collateral. For those other sources, institutions shall determine maximum loan-to-income ratios as part of their lending policy and obtain suitable evidence of the relevant income when granting the loan;

(c) the requirements set out in Article 208 and the valuation rules set out in Article 229(1) are met;

(d) unless otherwise determined under Article 124(2), the part of the loan to which the 35 % risk weight is assigned does not exceed 80 % of the market value of the property in question or 80 % of the mortgage lending value of the property in question in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions.

3. Institutions may derogate from point (b) of paragraph 2 for exposures fully and completely secured by mortgages on residential property which is situated within the territory of a Member State, where the competent authority of that Member State has published evidence showing that a well-developed and long-established residential property market is present in that territory with loss rates which do not exceed the following limits:

(a) losses stemming from lending collateralised by residential property up to 80 % of the market value or 80 % of the mortgage lending value, unless otherwise decided under Article 124(2), do not exceed 0,3 % of the outstanding loans collateralised by residential property in any given year;

(b) overall losses stemming from lending collateralised by residential property do not exceed 0,5 % of the outstanding loans collateralised by residential property in any given year.

4. Where either of the limits referred to in paragraph 3 is not satisfied in a given year, the eligibility to use paragraph 3 shall cease and the condition contained in point (b) of paragraph 2 shall apply until the conditions in paragraph 3 are satisfied in a subsequent year.

- **Article 126 (Exposures fully and completely secured by mortgages on commercial immovable property):**

1. Unless otherwise decided by the competent authorities in accordance with Article 124(2), exposures fully and completely secured by mortgages on commercial immovable property shall be treated as follows:

(a) exposures or any part of an exposure fully and completely secured by mortgages on offices or other commercial premises may be assigned a risk weight of 50 %;

(b) exposures related to property leasing transactions concerning offices or other commercial premises under which the institution is the lessor and the tenant has an option to purchase may be assigned a risk weight of 50 % provided that the exposure of the institution is fully and completely secured by its ownership of the property.

2. Institutions shall consider an exposure or any part of an exposure as fully and completely secured for the purposes of paragraph 1 only if the following conditions are met:

(a) the value of the property shall not materially depend upon the credit quality of the borrower. Institutions may exclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower from their determination of the materiality of such dependence;

(b) the risk of the borrower shall not materially depend upon the performance of the underlying property or project, but on the underlying capacity of the borrower to repay the debt from other sources, and as a consequence, the repayment of the facility shall not materially depend on any cash flow generated by the underlying property serving as collateral;

(c) the requirements set out in Article 208 and the valuation rules set out in Article 229(1) are met;

(d) the 50 % risk weight unless otherwise provided under Article 124(2) shall be assigned to the part of the loan that does not exceed 50 % of the market value of the property or 60 % of the mortgage lending value unless otherwise provided under Article 124(2) of the property in question in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions.

3. Institutions may derogate from point (b) of paragraph 2 for exposures fully and completely secured by mortgages on commercial immovable property which is situated within the territory of a Member State, where the competent authority of that Member State has published evidence showing that a welldeveloped and long-established commercial immovable property market is present in that territory with loss rates which do not exceed the following limits:

(a) losses stemming from lending collateralised by commercial immovable property up to 50 % of the market value or 60 % of the mortgage lending value, unless otherwise determined under Article 124(2), do not exceed 0,3 % of the outstanding loans collateralised by commercial immovable property;

(b) overall losses stemming from lending collateralised by commercial immovable property do not exceed 0,5 % of the outstanding loans collateralised by commercial immovable property.

4. Where either of the limits referred to in paragraph 3 is not satisfied in a given year, the eligibility to use paragraph 3 shall cease and the condition contained in point (b) of paragraph 2 shall apply until the conditions in paragraph 3 are satisfied in a subsequent year.

- **Article 129 (Exposures in the form of covered bonds) (Extract):**

1. To be eligible for the preferential treatment set out in paragraphs 4 and 5, bonds as referred to in Article 52(4) of Directive 2009/65/EC (covered bonds) shall meet the requirements set out in paragraph 7 and shall be collateralised by any of the following eligible assets:

(a) exposures to or guaranteed by central governments, the ESCB central banks, public sector entities, regional governments or local authorities in the Union;

(b) exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1 as set out in this Chapter, and exposures to or guaranteed by third-country public sector entities, third-country regional governments or third-country local authorities that are risk weighted as exposures to institutions or central governments and central banks in accordance with Article 115(1) or (2), or Article 116(1), (2) or (4) respectively and that qualify for the credit quality step 1 as set out in this Chapter, and exposures within the meaning of this point that qualify as a minimum for the credit quality step 2 as set out in this Chapter, provided that they do not exceed 20 % of the nominal amount of outstanding covered bonds of the issuing institutions;

(c) exposures to institutions that qualify for the credit quality step 1 as set out in this Chapter. The total exposure of this kind shall not exceed 15 % of the nominal amount of outstanding covered bonds of the issuing institution. Exposures to institutions in the Union with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions shall as a minimum qualify for credit quality step 2 as set out in this Chapter;

(d) loans secured by:

(i) residential property up to the lesser of the principal amount of the liens that are combined with any prior liens and 80 % of the value of the pledged properties; or

(ii) senior units issued by French Fonds Communs de Titrisation or equivalent securitisation entities governed by the laws of a Member State securitising residential property exposures. In the event of such senior units being used as collateral, the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC shall ensure that the assets underlying such units shall, at any time while they are included in the cover pool be at least 90 % composed of residential mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80 % of the value of the pledged properties, that the units qualify for the credit quality step 1 as set out in this Chapter and that such units do not exceed 10 % of the nominal amount of the outstanding issue.

(e) residential loans fully guaranteed by an eligible protection provider referred to in Article 201 qualifying for the credit quality step 2 or above as set out in this Chapter, where the portion of each of the loans that is used to meet the requirement set out in this paragraph for collateralisation of the covered bond does not represent more than 80 % of the value of the corresponding residential property located in France, and where a loan-to-income ratio respects at most 33 % when the loan has been granted. There shall be no mortgage liens on the residential property when the loan is granted, and for the loans granted from 1 January 2014 the borrower shall be contractually committed not to grant such liens without the consent of the credit institution that granted the loan. The loan-to-income ratio represents the share of the gross income of the borrower that covers the reimbursement of the loan, including the interests. The protection provider shall be either a financial institution authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to institutions in terms of robustness or an institution or an insurance undertaking. It shall establish a mutual guarantee fund or equivalent protection for insurance undertakings to absorb credit risk losses, whose calibration shall be periodically reviewed by the competent authorities. Both the credit institution and the protection provider shall carry out a creditworthiness assessment of the borrower;

(f) loans secured by:

(i) commercial immovable property up to the lesser of the principal amount of the liens that are combined with any prior liens and 60 % of the value of the pledged properties; or

(ii) senior units issued by French Fonds Communs de Titrisation or equivalent securitisation entities governed by the laws of a Member State securitising commercial immovable property exposures. In the event of such senior units being used as collateral, the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC shall ensure that the assets underlying such units shall, at any time while they are included in the cover pool be at least 90 % composed of commercial mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60 % of the value of the pledged properties, that the units qualify for the credit quality step 1 as set out in this Chapter and that such units do not exceed 10 % of the nominal amount of the outstanding issue.

Loans secured by commercial immovable property are eligible where the loan to value ratio of 60 % is exceeded up to a maximum level of 70 % if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 %, and the bondholders' claim meets the legal certainty requirements set out in Chapter 4. The bondholders' claim shall take priority over all other claims on the collateral;

(g) loans secured by maritime liens on ships up to the difference between 60 % of the value of the pledged ship and the value of any prior maritime liens.

For the purposes of points (c), (d)(ii) and (f)(ii) of the first subparagraph, exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the limits referred to in those points.

The competent authorities may, after consulting EBA, partly waive the application of point (c) of the first subparagraph and allow credit quality step 2 for up to 10 % of the total exposure of the nominal amount of outstanding covered bonds of the issuing institution, provided that significant potential concentration problems in the Member States concerned can be documented due to the application of the credit quality step 1 requirement referred to in that point.

2. The situations referred to in points (a) to (f) of paragraph 1 shall also include collateral that is exclusively restricted by legislation to the protection of the bondholders against losses.

3. Institutions shall for immovable property collateralising covered bonds meet the requirements set out in Article 208 and the valuation rules set out in Article 229(1).

4. Covered bonds for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 6a which corresponds to the credit assessment of the ECAI in accordance with Article 136.

TABLE 1

Credit quality step	1	2	3	4	5	6
Risk weight	10%	20%	20%	50%	50%	100%

- **Article 208 (Requirements for immovable property collateral):**

1. Immovable property shall qualify as eligible collateral only where all the requirements laid down in paragraphs 2 to 5 are met.

2. The following requirements on legal certainly shall be met:

(a) a mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis;

(b) all legal requirements for establishing the pledge have been fulfilled;

(c) the protection agreement and the legal process underpinning it enable the institution to realise the value of the protection within a reasonable timeframe.

3. The following requirements on monitoring of property values and on property valuation shall be met:

(a) institutions monitor the value of the property on a frequent basis and at a minimum once every year for commercial immovable property and once every three years for residential property. Institutions carry out more frequent monitoring where the market is subject to significant changes in conditions;

(b) the property valuation is reviewed when information available to institutions indicates that the value of the property may have declined materially relative to general market prices and that review is carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. For loans exceeding EUR 3 million or 5 % of the own funds of an institution, the property valuation shall be reviewed by such valuer at least every three years.

Institutions may use statistical methods to monitor the value of the immovable property and to identify immovable property that needs revaluation.

4. Institutions shall clearly document the types of residential property and commercial immovable property they accept and their lending policies in this regard.

5. Institutions shall have in place procedures to monitor that the immovable property taken as credit protection is adequately insured against the risk of damage.

- **Article 229 (Valuation principles for other eligible collateral under the IRB Approach) (Extract):**

1. For immovable property collateral, the collateral shall be valued by an independent valuer at or at less than the market value. An institution shall require the independent valuer to document the market value in a transparent and clear manner.

In those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions the immovable property may instead be valued by an independent valuer at or at less than the mortgage lending value. Institutions shall require the independent valuer not to take into account speculative elements in the assessment of the mortgage lending value and to document that value in a transparent and clear manner.

The value of the collateral shall be the market value or mortgage lending value reduced as appropriate to reflect the results of the monitoring required under Article 208(3) and to take account of any prior claims on the immovable property.

European Central Bank: Guidance to banks on Non-Performing Loans (available *here*):

Chapter 7: Collateral valuation for immovable property (Extract)

7.1 Purpose and overview

Findings of supervisory activities including the Comprehensive Assessment/AQR but also onsite inspections have highlighted deficiencies in the approaches employed by banks in relation to the completeness and accuracy of immovable property valuation.

In the past, banks have often failed to obtain periodic financial information from borrowers or updated real estate valuations in order to assess the quality of loans on their balance sheets and the adequacy of collateral. Consequently, the banks failed to recognise early warning signs that asset quality was declining, which resulted in an understatement of balance sheet loan loss provisions.

Scope of chapter

This chapter sets out supervisory expectations and provides best guidance regarding the policies, procedures and disclosures which banks should adopt when valuing immovable property held as collateral for NPLs.

Under the SSM, banks are expected to adhere to the principles presented in this chapter and incorporate these principles into their policies, procedures and controls.

For the purposes of the guidance set out in this chapter, all types of immoveable property collateral are eligible regardless of CRR eligibility.

Articles 208 and 229 of Regulation (EU) No 575/2013 apply.[1]

This chapter begins by outlining general governance expectations (section 7.2) covering aspects of policies, procedure, monitoring and controls as well as expectations with regard to appraisers. It then provides guidance on the frequency of valuations (section 7.3) and on valuation methodology (section 7.4). Finally, it also touches on the valuation of foreclosed assets (section 7.5).

7.2 Governance, procedures and controls

7.2.1 General policies and procedures

The bank should have written policies and procedures in place, approved by the management body and complying with the criteria established herein, governing the valuation of immovable property collateral.

The policy and procedures documents should have defined owners with responsibility for reviewing them and ensuring that material changes are submitted to the management body for approval.

Banks' written collateral valuation policies and procedures should be reviewed at least on an annual basis. Banks should ensure that any knowledge gaps are identified during the review process and remediation plans are implemented in a timely manner to close any such gaps.

Policies and procedures should be fully aligned with the bank's risk appetite statement (RAS).

[1] In particular, paragraph 3 of Article 208 states: "The following requirements on monitoring of property values and on property valuation shall be met: (a) institutions monitor the value of the property on a frequent basis and at a minimum once every year for commercial immovable property and once every three years for residential property. Institutions carry out more frequent monitoring where the market is subject to significant changes in conditions; (b) the property valuation is reviewed when information available to institutions indicates that the value of the property may have declined materially relative to general market prices and that review is carried out by an appraiser who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. For loans exceeding EUR 3 million or 5 % of the own funds of an institution, the property valuation shall be reviewed by such appraiser at least every three years."

7.2.2 Monitoring and controls

Banks are expected to monitor and review the valuations performed by appraisers on a regular basis as set out in this chapter.

Banks should develop and implement a robust internal quality assurance policy and procedures for challenging valuations completed internally and externally. This process may have different forms depending on banks' size and business model but the general principles are:

- the quality assurance process should be carried out by a risk control unit that is independent of the loan processing, loan monitoring and underwriting process;
- the independence of the external appraiser selection process should be tested on a regular basis as part of the quality assurance process;
- an appropriate similar sample of internal and external valuations should be compared against market observations on a regular basis;
- back-testing of both internal and external collateral valuations should be carried out on a regular basis;
- the quality assurance process should be based on an appropriate sample size.

Additionally, the internal audit department should regularly review the consistency and quality of the immovable property valuation policies and procedures, the independence of the appraiser selection process and the appropriateness of the valuations carried out by both external and internal appraisers.

Banks should ensure adequate diversification among the valuations assigned to appraisers. After two sequential updated individual valuations (as defined in the next section) of the same immovable property, the appraiser should rotate (either to a different internal valuer or to a different external appraisal provider).

While sections 7.2.1 and 7.2.2 above relate to collateral securing NPLs, supervisors would also consider these sections to represent best practice for the governance, monitoring and control of performing exposures.

7.2.3 Individual versus indexed valuations

Individual valuations

For the purposes of this guidance, banks should use at a minimum the following procedures to update the valuation of immoveable property collateral as follows:

- Banks should monitor the value of immovable property collateral on a frequent basis and at a minimum as prescribed in Article 208(3) of Regulation (EU) No 575/2013.
- Individual property valuations (including updated individual property valuations) are defined as property-specific appraisals, which are performed by an appraiser on a specific property basis and are not based on indexation or any other automated process. Individual property valuations should be performed in line with the expectations of this chapter.

Indexed valuations

Valuations derived from indexation or any other automated processes are defined as indexed valuations and do not constitute a revaluation or an individual property valuation. However, they may be used to update the valuation for non-performing loans of less than 300,000 euro in gross value, which are secured by immovable property collateral provided that the collateral to be valued is susceptible to measurement by such methods.

The minimum requirements of Article 208(3) of the CRR will continue to apply notwithstanding the existence of the stated exception threshold.

Furthermore, the threshold for indexation does not supersede any national jurisdictional requirement specifying a more conservative threshold requirement for individual valuations.

The indices used to carry out this indexation may be internal or external as long as they are:

- Reviewed regularly and the results of this review are documented and are readily available. The review cycle and governance requirements should be clearly defined in a management body approved policy document.
- Sufficiently granular and the methodology should be adequate and appropriate for the asset class in question.
- Based on a sufficient time series of observed empirical evidence (actual property transactions).

7.2.4 Appraisers

All valuations (including updated valuations) should be performed by independent qualified appraisers, internal or external, who possess the necessary qualifications, ability and experience to execute a valuation, as provided for in Article 208(3)(b) of Regulation (EU) No 575/2013.

Banks should have a properly approved panel of independent and qualified appraisers, internal or external, based on the criteria below. They should assess appraisers' performance on an on-going basis and decide whether an appraiser may remain in the panel, or not.

Banks should ensure that external appraisers have an appropriate level of professional indemnity insurance and should review this insurance on an annual basis to ensure that it is adequate and valid.

Banks should ensure that all appraisers and their first grade relatives, both internal and external, meet the requirements of independence as follows:

- appraiser is not involved in the loan processing, loan decision and credit underwriting process;
- appraiser is not guided or influenced by the debtor's creditworthiness;
- appraiser does not have an actual or potential, current or prospective conflict of interest regarding the result of the valuation;
- appraiser does not have an interest in the property;
- appraiser is not a connected person to either the buyer or the seller of the property;
- appraiser provides an impartial, clear, transparent and objective valuation report;
- appraiser should not receive a fee linked to the result of the valuation.

A qualified appraiser should:

- be professionally competent and have at least the minimum educational level that meets any national requirements to carry out such valuations;
- have appropriate technical skills and experience to perform the assignment;
- be familiar with and be able to demonstrate ability to comply with any laws, regulations and real estate valuation standards that apply to the appraiser and the assignment;
- have the necessary knowledge of the subject of the valuation, the real estate market in which it would trade and the purpose of the valuation.

A panel of appraisers should contain expertise in various areas of the property sector appropriate to the lending business of the bank and the location of lending.

EMF-ECBC PROFILE OF RISK RELATED CRITERIA FOR VALUATIONS

Introduction

The EMF-ECBC recommends that certain risk related criteria (see risk profile to the right) should be used when preparing and interpreting property valuations for lending purposes. These criteria relate to valuations using mortgage lending value or market value and can be considered independently of the valuation approach. In addition, there are other criteria that can be considered by professionals in assessing risks such as partnership risks and financial risks.

The risk profile can be used by lenders to obtain additional information that would improve their recognition and management of risk. The profile is intended to enhance the quality of valuations by covering what could be of interest to mortgage lenders.

Rationale for a risk profile

The risk profile builds on the findings of the EMF-ECBC Study on the Valuation of Property for Lending Purposes in the European Union, especially with respect to the use of valuations nationally and cross-border together with the relevant regulation and/or self regulation. Property valuation is a core criterion for the optimal measurement and management of credit risk by mortgage lenders especially with respect to the risk sensitive approach of the Basel Framework pertaining to credit risk and the Capital Requirements Directive.

In this respect, the risk profile can be seen as a tool to manage and reduce risk. It should prove useful in improving the quality of valuations and increasing the credibility of valuation with supervisors.

Valuation and lending practices

In a number of Member States, the valuation of property is a different, albeit complementary, act from risk assessment in the granting of a loan. For instance, an independent valuation company may undertake the former while the latter is done internally within the lender. This reflects the different valuation traditions in the European Union. In some Member States valuation is internal to the lender and is an integral part of the risk management process. In others the valuation profession operates independently from the lender.

In the latter case, valuers do not have information about the financial arrangements or about the borrower. For example, the loan to value ratio comes under the heading 'financial risks'. The valuer should not take into account loan to value when determining the value. However, credit officers do have such information which they can use along with the valuation report. Therefore, the valuer, when carrying out a valuation for lending purposes, should take into account market and location risks, construction related property risks, the quality of tenants and leases as well as fiscal and legal risks. The credit officer, when considering a mortgage loan application, should also take into account other risks, such as financial risks.

Different valuation approaches

The profile is not linked to a specific valuation approach (e.g. comparative, income etc). This enables users of valuations from another valuation tradition to use the profile to assist the interpretation of any kind of valuation report. Where a valuation is carried out using the market value one could signal that the valuation has been carried out at the top of the cycle and may not be sustainable. It may not be possible to purchase/sell a property at this price. Where a valuation is carried out using the mortgage lending value one could signal that this is the sustainable value.

A valuation of all types of property for lending purposes should therefore reflect the following risk criteria:

Market risks:

- Timing (present market conditions);
- Market cycles;
- Market volatility / stability / liquidity;
- Demand and supply;
- Economic stability of the market;
- Market structures;
- Attractiveness of regional markets;
- Investor or owner occupier driven market;
- Behaviour of the market participants;
- Demographic trends;
- Labour supply;
- Other investment opportunities.

Location Risks:

- Planning and development of the immediate neighbourhood and the greater surroundings (micro & macro);
- Development of the region, the city and the district;
- Competition: micro-trends of the local economy / other alternative investment opportunities at local level;
- Suitability of the location for investment, revenues and increases in values;
- Infrastructure;
- Public utilities / local supply;
- Attractiveness of the location for companies.

Construction related property risks:

- Physical / architectural issues / quality of the property (fitting out, age etc.);
- Maintenance requirements;
- Economic efficiency;
- Environmental efficiency;
- Marketability and appropriateness for third party users;
- Flexibility for other types of use;
- Contamination / polluted land;
- Reconstruction cost.

Tenants / Leases:

- Strength of tenants;
- Reputation of tenants;
- Cash flow risks;
- Strength of investor.

Fiscal risks:

- Current tax situation;
- Potential positive / negative changes;
- Local tax regime;
- Regional incentives.

Legal risks:

- Ownership;
- Planning permission;
- Country specific lease structures;
- Subsidies;
- Efficiency of enforcement (repossession) and forced sale;
- Liability for contamination.

2017 QUESTIONNAIRE FOR THE STUDY ON THE VALUATION OF PROPERTY FOR LENDING PURPOSES IN EU MEMBER STATE

I. THE VALUATION

This section aims to provide an overview of the frameworks/practices related to valuation standards, valuation bases and methodologies, the form and content of valuation reports and the use of AVMs relative to the valuation of residential and commercial property in the different Member States of the European Union (EU).

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How has the regulator in your Member State transposed Article 19(1) of the MCD regarding *"reliable standards"* for the valuation of residential property into national legislation? Please provide details of how the provision has been transposed (in legislation or delivered through a professional body), indicate whether and how *"reliable standards"* are defined and whether and how the content of those standards are prescribed.

Commercial property

a) Is there a legal framework in your Member State specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your Member State for the valuation of property for lending purposes:
   - Residential
   - Commercial

b) Based on what definition? Please provide the definition and reference to where it can be located.

c) What other valuation bases are used in your Member State for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your Member State to value properties for lending purposes in each category?

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your Member State specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.

1.4 Technology & Valuation

a) Does the legal or professional framework in your Member State provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your Member State have their own internal guidelines?

b) For what purpose are AVMs employed in your Member State?
   - Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
   - Mortgage Origination & others

c) Do you foresee an increase in the future use of AVMs?

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your Member State (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.

II. THE VALUER

This section aims to provide an overview of the frameworks/practices related to the valuer in the different EU Member States.

2.1 Regulatory Framework

a) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD regarding "professionally competent" valuers? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the term is defined and whether and how professional competence requirements are prescribed. Please highlight if your Member State transposition goes beyond the provision prescribed in Article 19(2).

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?

c) How has the regulator in your Member State transposed the provision in Article 19(2) of the MCD (or Art. 208(3)(b) CRR) regarding "sufficient independence from the credit underwriting process"? Please provide details of how the provision has been transposed (in legislation or delivered through self-regulation), indicate whether and how the requirement is defined and whether and how it is prescribed.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your Member State? If yes, by whom?

b) If the title of valuer is not protected in your Member State, how do lenders protect themselves against the risk of 'unqualified' valuers?

2.3 External v. Internal

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
   - If yes, do credit institutions have the possibility to employ both internal and external valuers?
   - Is one type of valuer typically employed more frequently than the other?

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your Member State specific to the valuation of property for lending purposes require:
   - Valuers to have professional indemnity insurance cover?
   - Lenders to use only valuers covered by professional indemnity insurance?

b) If there are no such requirements, how are lenders/valuers covered for the risk?
   - Is/are there legislation/rules in your Member State determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

This section aims to provide an overview of the important role of property valuation in relation to the calculation of capital requirements and specifically, in this context, the eligibility of collateral for the preferential risk weights for real estate. See Articles 124-126, 208 & 229(1) CRR.

a) What are the maximum eligible asset LTV ratios for the preferential treatment of residential and commercial real estate in your Member State?

b) Has the regulator in your Member State laid down criteria regarding *"more frequent monitoring where the market is subject to significant changes"*?

c) Has the regulator in your Member State laid down criteria regarding *"monitoring using statistical methods"*?

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.

e) Has the regulator in your Member State laid down criteria which define *"review"* of the property valuation?

f) Please provide a description of how 'reviews' are carried out in your Member State, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.

g) Has the regulator in your Member State laid down criteria which define *"material decline"*?

h) Has the regulator in your Member State set out any data requirements specifically relating to property valuation?

i) Has the regulator in your Member State issued executive orders or guidelines on "Market Value" and "Mortgage Lending Value"? If yes, what do they consist of?

IV. VALUATION OF THE COVERED BOND COVER POOL

This section aims to provide an overview of the LTV requirements specific to the mortgage cover pool in the different EU Member States. See Articles 129(3), 208 & 229 (1) CRR. For Member States, which do not have a covered bond framework, this section is not relevant.

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?

d) Are there specific qualification and independence requirements for valuers?

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?

k) Is there any additional LTV limit on a portfolio basis?

2017 QUESTIONNAIRE FOR THE STUDY ON THE VALUATION OF PROPERTY FOR LENDING PURPOSES IN NON-EU COUNTRIES

I. THE VALUATION

This section aims to provide an overview of the frameworks/practices related to valuation standards, valuation bases and methodologies, the form and content of valuation reports and the use of AVMs relative to the valuation of residential and commercial property in the countries outside the European Union (EU).

1.1 Regulatory Framework

Valuation Standards

Residential property

a) How is the valuation of residential property regulated in your country national legislation? Please provide details of how valuation standards are regulated (in legislation or delivered through a professional body), indicate whether and how the standards are defined and whether and how the content of those standards are prescribed.

Commercial property

a) Is there a legal framework in your country specific to the valuation of commercial property for lending purposes? If yes, please provide references and indicate if this is the same as or separate from the framework for the valuation of residential property.

b) If there is no specific legal framework, is the valuation of residential and commercial property for lending purposes covered by another legal framework or is the sector self-regulated/self-certified? If yes, please explain.

1.2 Valuation Bases & Methodology

a) What valuation bases (Market Value, Mortgage Lending Value, etc.) are typically used in your country for the valuation of property for lending purposes:
   - Residential
   - Commercial

b) Based on what definition? Please provide the definition and reference to where it can be located.

c) What other valuation bases are used in your country for the valuation of property? Please specify the effect, if any, the differences in valuation base have on the final valuation.

d) Depending on the valuation base used, which valuation methods (comparison, capitalization, cost, etc.) are typically applied in your country to value properties for lending purposes in each category?

1.3 Valuation Report: Form & Content

a) Does the legal or professional framework in your country specific to the valuation of residential provide minimum requirements in terms of the form and content of the valuation report? If yes, please indicate what these minimum requirements are.

b) If the form or content of the valuation report is not prescribed, what form does the valuation report typically take?

c) Is the form and content of valuation reports specific to the valuation of commercial property prescribed in the same way as for the valuation of residential property, or are there differences? Please describe as appropriate.

1.4 Technology & Valuation

a) Does the legal or professional framework in your country provide specific rules/guidance on the use of AVMs? If yes, what does this consist of and is it restricted to a particular type of property? If not, do banks in your country have their own internal guidelines?

b) For what purpose are AVMs employed in your country?
   - Portfolio valuation (capital requirement purposes, covered bond & securitisation transactions, risk management, accounting etc.)
   - Mortgage Origination & others

c) Do you foresee an increase in the future use of AVMs?

d) Please name any technological developments you consider could potentially impact the valuation industry doing forward.

1.5 Market Initiatives

a) Please describe any market initiatives which have been undertaken in your country (including cross border initiatives) which has promoted market best practices and/or transparency of valuation practices.

II. THE VALUER

This section aims to provide an overview of the frameworks/practices related to the valuer in the non-EU countries.

2.1 Regulatory Framework

a) Please provide details of how valuers' professional competence is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how professional competence is defined and whether and how professional competence requirements are prescribed.

b) If professional competence requirements are not prescribed, what is general practice with regard to professional qualifications?

c) Please provide details of how sufficient independence from the credit underwriting process of valuers is ensured in your country (in legislation or delivered through self-regulation), indicate whether and how the sufficient independence is defined and whether and how it is prescribed.

d) If "sufficient independence" is not prescribed, what is general practice to ensure the valuer is unbiased and not subject to undue pressure?

e) Is the regulatory or professional framework the same for all valuers, whether they value residential and/or commercial property? Or are there differences? Please describe as appropriate.

2.2 Use of Valuer Title

a) Is the use of the title of valuer protected in your country? If yes, by whom?

b) If the title of valuer is not protected in your country, how do lenders protect themselves against the risk of 'unqualified' valuers?

2.3 External v. Internal

a) Does the legal or professional framework in your country specific to the valuation for lending purposes lay down rules for banks and lenders as to whom they may use to value properties?
   - If yes, do credit institutions have the possibility to employ both internal and external valuers?
   - Is one type of valuer typically employed more frequently than the other?

b) If there is/are no legislation/rules regarding the use of external and internal valuers, what is typical practice?

2.4 Professional Indemnity Insurance

a) Does the legal or professional framework in your country specific to the valuation for lending purposes require:
   - Valuers to have professional indemnity insurance cover?
   - Lenders to use only valuers covered by professional indemnity insurance?

b) If there are no such requirements, how are lenders/valuers covered for the risk?
   - Is/are there legislation/rules in your country determining the responsibility of the valuer vis-à-vis his client? If yes, please describe the legislation/rules and the responsibility of the valuer.

III. VALUATION & CAPITAL REQUIREMENTS: ELIGIBILITY OF COLLATERAL

This section aims to provide an overview of the important role of property valuation in relation to the calculation of capital requirements in this context of (eligible) real estate collateral for non-EU countries.

a) What are the maximum eligible asset LTV ratios within your country's framework for the calculation of capital in respect to residential and commercial real estate collateral?

b) Has the regulator in your country laid down criteria regarding more frequent monitoring where the market is subject to significant changes?

c) Has the regulator in your country laid down criteria regarding monitoring using statistical methods?

d) Please define and/or describe these statistical methods/tools required by regulators or otherwise applied by lenders in practice.

e) Has the regulator in your country laid down criteria which define 'review' of the property valuation?

f) Please provide a description of how valuation 'reviews' are carried out in your country, e.g. by a new full-size valuation report, a desk-top valuation, a valuation certificate, a plausibility assessment or alike.

g) Has the regulator in your country laid down criteria which define 'material decline'?

h) Has the regulator in your country set out any data requirements specifically relating to property valuation?

i) Has the regulator in your country issued executive orders or guidelines on "market value" and "mortgage lending value"? If yes, what do they consist of?

IV. VALUATION OF THE COVERED BOND COVER POOL

This section aims to provide an overview of the LTV requirements specific to the mortgage covered bond cover pool in the non-EU countries. For countries, which do not have a covered bond framework, this section is not relevant.

a) Are valuation rules for cover assets provided by the national covered bond legislation, by general law or by professional guidance/standards?

b) What valuation bases apply for the valuation of cover assets (Market Value, Mortgage Lending Value etc.)?

c) In the case of Market Value valuations, are there any prudential or longer term/sustainable features of the property to be considered? If yes, to what extend?

d) Are there specific qualification and independence requirements for valuers?

e) Are there differences in valuation rules and/or qualification requirements with regard to the property type (residential vs. commercial properties) or to the loan amount?

f) Are there specific monitoring and/or revaluation requirements for cover pool assets?

g) Are there any special LTV limits used solely for calculating collateralisation rates for the cover pool? If yes, please specify.

h) Do bondholders get the benefit of that portion of the loan which exceeds the LTV cap?

i) Is there an LTV cap which makes the entire loan ineligible for inclusion in the cover pool (soft vs. hard LTV limits)? If yes, please specify.

j) Is there an LTV cap which would require a loan to be removed from the cover pool?

k) Is there any additional LTV limit on a portfolio basis?

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