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The Evolving Role of the Valuation Process

It is a well documented fact that when times are tough, incidents of financial fraud, including mortgage fraud, increase dramatically. The Economic Crime Department, which was last year tasked by the Home Office with combating fraud in Britain, recently released figures confirming that the number of reported cases have risen by 72 per cent during the last 12 months; an astonishing statistic I'm sure you will agree.

Hitting the headlines have also been a number of well documented mortgage fraud cases that have culminated in hefty fines exceeding £100,000 by the FSA, brokers being struck off and even imprisonments.

Within the last three months at Quest, our Q-Guard fraud prevention and detection tool has tracked a 65% increase in the number of 'alerts' it is sending to mortgage lenders that highlight any application that may require further inspection due to suspicious characteristics identified by the software.

In April alone, over 8,800 cases were 'red flagged' at the point of valuation by Q-Guard and an alert was sent to the lending organisation before the application was finalized or any money transferred. This pre-warning enables lenders to add an additional safeguard to the mortgage application process and also helps support their due-diligence process surrounding suspicious applicants or circumstances they may already be tracking.

For example, a senior fraud manager from a major lending organisation recently contacted us with concerns that they were seeing a rise in the number of suspicious transactions on new build properties. In particular those that were being purchased in bulk with a series of delayed completion dates. Using Q-Guard, we were able to run the cases through the system to determine the number of valuations that had been produced on these new builds since the beginning of the year.

The result was a direct link to nine other applications that were being processed by other lenders and so the case was confirmed as high risk and we were able to alert the other lending organisations to the potential risk.

It is the combination of strict vigilance across the industry, existing personal identification checks and the use of intelligent pattern-matching technologies that

analyse historic and current mortgage valuation which will help reduce incidents of fraud over the coming months. Watch this space for updates.

The Role of the Surveyor

So with the industry working together to combat mortgage fraud, what changes are afoot in the valuation space to support these movements and also adapt to the ever changing market conditions?

With a distinct focus on cautious or 'sensible' lending, the role of the property surveyor is vital in ensuring the correct valuation is applied to each property application. Whilst Automated Valuation Models (AVMs) are still being used by lenders on predominantly low risk cases, for example with further advances for those applications that have a low loan-to-value (LTV) and where the property was recently inspected, the need to assess a property is high for a number of reasons.

Firstly, the surveyor has on-the-ground, local knowledge of the surrounding area that they apply to each case. They can also physically judge the overall condition of the property during a drive-by or physical inspection, which can have a dramatic impact on value. In addition, they can take into account circumstantial 'lifestyle' considerations – for example whether the property is in fact being used for commercial activities or is tenanted.

This type of circumstantial information can determine whether the correct mortgage has been applied for or if the application has been completed appropriately. For example, if the application is for a standard repayment mortgage and it is clear the property is rented to a group of five students, a surveyor can report this information in the 'general remarks' section of the survey, providing the lender with an opportunity to inspect the application further, before it is processed.

An AVM is also unable to identify if a 'kick-back' or incentive has been provided by a property developer looking to make a quick sale on a new-build apartment, therefore for cases like these that are considered to be higher risk, a physical valuation is a must. The number of high profile fraudulent cases in this space means it is now very unlikely that a lender will rely solely on an AVM. In fact, there are now many lenders who have temporarily pulled out of lending in this space due to the associated risks.

AVMs do however continue to play a vital role. When the confidence rating is high, they are used to complement the desktop valuations, as submitted by the surveyor. They are able to keep costs down to a small transaction fee, rather than paying for a professional's hourly rate, and technology is in place that enables lenders to automatically 'cascade' cases to preferred AVM suppliers for actioning if it meets determined criteria, as outlined by the lender.

The Quest AVM Switch is one such tool that enables mortgage lenders to determine a set number of rules that specify which valuations qualify for an automated valuation, a drive-by or a physical inspection. This can be based on LTV ratios, location of property and age of the building in question, to name just a few.

If deemed acceptable, based on the rules, algorithms and set confidence levels of the individual case, the system automatically filters it through to one of the lender's selected AVM suppliers for completion. Once finalised, the resulting valuation is then fed back through Quest and automatically returned to the instructing party for use.

The use of AVMs will continue and, in a depressed market, will provide a realistic valuation to use alongside physical or desktop versions. The increase in criminal fraudulent activity means surveyors play an increasingly active role in delivering individualised surveys that contain additional data to support the fraud detection movement. And, of course, the use of technology will also rise to ensure surveyors are fully armed with comparable data to use as part of the valuation process.

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Box-Out Section

***Question:** "There is a shortage of properties in the UK and in order to meet Government targets we are relying on property developers to develop new builds. However overpricing and fraud problems related to new build properties has meant many lenders are no longer lending on such properties. How can we overcome this issue?"*

Amir Ghani, Mortgage Policy Advisor, Building Societies Association:

"The current financial climate has seen a decline in all forms of lending. However, it is widely accepted that lenders are treating some new build properties more cautiously. The reasons can vary from a tightening of risk appetite to evidence of fraudulent transactions.

The boom, particularly in city centre flats, saw a rise in valuation related fraud. Yet new developments remain crucial to ensuring we have a housing stock that meets present and future need. For lender confidence to return a transparent and open valuation process for such properties is needed, ensuring lenders have all the information required to determine the true value of the property.

For years, lenders, the Government and regulators have been working on fraud prevention measures. This has brought about a sophisticated cat-and-mouse game between lenders and fraudulent borrowers each trying to out wit the other. Innovative solutions to this perpetual problem are crucial to ensure the lender remains in front. Technology has a role, especially in making relevant information more accessible and

timely as would a better and more transparent sharing of information between lenders, surveyors and solicitors to help restore trust in the valuation of new build properties."

Robert Sinclair, Director, AMI:

"AMI agrees that there is a need to retain a credible new-build capacity in the UK. Lenders need confidence that the valuation offered is an accurate reflection of the true price someone is prepared to pay in the open market. Current conditions mean that this is hard to establish with the lack of new build properties and restricted other transaction volumes in the market. We need government action to restore higher transaction levels as it is only at that point will we be better able to establish realistic property valuations upon which a lender can rely."

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