

# RESTRICTED ASSESSMENT SUPPORTING MEMORANDUM

## 1.0 Introduction

### 1.1 Purpose

This Supporting Memorandum (“Memorandum”) provides the basis upon which Members of the Australian Property Institute (API), who are a Certified Practising Valuer (CPV) or Residential Property Valuer (RPV), will carry out Restricted Assessments of residential property for first mortgage purposes and the basis upon which their lender-client will use and accept Restricted Assessments.

This document is to be read in conjunction with the Australian Banking & Finance Industry Residential Valuations Standing Instructions for PropertyPRO, Restricted Valuation and Progress Inspection Reports (Standing Instructions). In the event of any inconsistency, the provisions of this Supporting Memorandum shall prevail.

### 1.2 Definition

A Restricted Assessment is an assessment carried out in accordance with this Supporting Memorandum in the format titled “Restricted Assessment – Residential Property” Copyright API 2001.

### 1.3 Scope

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

1.4 CPV/RPVs undertaking a Restricted Assessment do so pursuant to the API’s Code of Professional Conduct.

1.5 A lender-client who instructs a CPV/RPV to do a Restricted Assessment must do so in accordance with the provisions of this Memorandum and in doing so agrees to accept the commercial risks inherent in relying upon a Restricted Assessment as described in this Memorandum and the immunities and indemnities in favour of the CPV/RPV and their employer provided within this Memorandum.

1.6 This Memorandum sets out the requirements that a lender-client must comply with in requesting, and CPV/RPV must comply with in providing, a Restricted Assessment for residential mortgage purposes. In particular, it provides important information to a lender-client and CPV/RPV in relation to:

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

## 2.0 Background

2.1 The Institute acknowledges that lender-clients require a range of reporting formats and thus levels of valuation rigour. The highest level is the full speaking valuation which requires the Valuer to undertake a full inspection and undertake all relevant property enquiries; the next level is that utilizing the PropertyPRO pro-forma report format

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which is undertaken within the acknowledged restrictions of the PropertyPRO Residential Valuation and Security Assessment Supporting Memorandum. In certain instances a lender-client may only have a need for a lower level of valuation assurance which the Institute and lender-client recognise as a Restricted Assessment.

- 2.2 The Institute reserves Copyright of the Restricted Assessment Residential - Property pro-forma report.

This is deemed necessary to retain the integrity and consistency of the report format. The report format is available through the Institute.

- 2.3 Although the Institute has approved the use of Restricted Assessments in the manner contemplated by this Supporting Memorandum it does not accept any responsibility for the content of any Restricted Assessment.
- 2.4 Any CPV/RPV who provides or any lender-client who uses or relies upon a Restricted Assessment agrees to be bound by all of the provisions of this Supporting Memorandum.

### 3.0 Provision of the 'Restricted Assessment' Service

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

### 4.0 Restrictions on the Provision and Use of a Restricted Assessment

- 4.1 A Restricted Assessment must only be carried out by CPV/RPV for the assessment of existing single residential dwellings for first mortgage security

purposes.

In certain circumstances it may be appropriate to consider:

- A non-income producing rural residential property where a single residential dwelling is permissible.

The decision whether to accept such a request is one for the valuer who needs to consider, from a web based or street frontage observation, if comment is appropriate or it should be lifted to a PropertyPRO or full valuation report.

The Institute considers it inappropriate to conduct restricted assessments in circumstances where the improvements are not readily observable, (i.e. set too far back on the block as to gain an adequate appreciation of the external condition of the property), and or the property is two hectares or greater in size.

- A vacant allotment on which the construction of a single residential dwelling is permissible.

However, if the valuer is of the opinion the land is a high risk property which includes rebates, encumbered by a building contact or has possible environmental issues, town planning or titling issues a restricted assessment is not appropriate.

- Strata or community plan units.

Other than single level developments, a valuer, if requested to assess a strata or community plan unit, needs to consider whether the inherent complexities of such (views / position within the complex; quality of amenities; car parking; land tenure; encumbrances, management agreements; common area improvements and marketing history, etc.) are more appropriately investigated in a full or PropertyPRO report. If in the opinion of the valuer, the specific property should not be considered as a restricted assessment, the Institute considers such a request out of scope.

- A dual occupancy property (e.g. two units on one title).

Such circumstances being where the two properties are readily observable from an external inspection.

The decision whether to accept such a

request is one for the valuer who needs to consider, from a web based or street frontage observation, if comment is appropriate or it should be lifted to a PropertyPRO or full valuation report.

A Restricted Assessment must not be used for the valuation of proposed dwellings or extensions/renovations to existing dwellings and is not suitable for the assessment of unique residential properties or those falling within upper market levels. Whilst no monetary limit has been determined with respect to upper market levels, it would be prudent for valuers and lender-clients alike to consider the imposition of such limits within their organisations.

A Restricted Assessment is not considered suitable for a property that appears to be in poor/uninhabitable condition or any other type of property unless in line with this Supporting Memorandum and the Standing Instructions.

4.2 A Restricted Assessment as defined in this Supporting Memorandum must only be provided on the Restricted Assessment - Residential Property pro-forma report annexed hereto after Part A has been completed (as far as possible) by the lender-client. The Restricted Assessment - Residential Property pro-forma report is copyright by the Australian Property Institute and must not be modified in any way without approval in writing from the Australian Property Institute.

4.3 The Institute considers that a Restricted Assessment is not suitable for:

- high percentage lending.
- Mortgage insurance purposes.

Any instructing party that uses the restricted assessment for either high percentage lending (where the loan to current purchase price ratio (if any) exceeds 80%) or mortgage insurance purposes indemnifies the CPV/RPV against any action by any party who has relied upon the assessment. RA:9.3 refers.

## 5.0 Information to be provided to the CPV/RPV

The CPV/RPV requires certain information to undertake a Restricted Assessment. The lender-client is required to provide the following minimum information to the CPV/RPV:

### Essential information:

- full property address (lot number is insufficient unless plan number also supplied)
- Number/type of rooms, number of bedrooms and bathrooms
- Estimated living area
- External improvements (eg Swimming pool)
- Land area

### Important information:

- title detail / legal description / survey or registered plan

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

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

### Desirable information:

- Main building type
- Main walls and roof

## 6.0 Limitations and Requirements of a Restricted Assessment

6.1 It is important that both the CPV/RPV and lender-client are aware of the extent and limitations of a Restricted Assessment provided by the CPV/RPV. In utilising this service, the lender-client agrees to waive the requirement for many of the processes that a CPV/RPV would undertake in carrying out a full valuation of a property.

6.2 A lender-client requesting a CPV/RPV to carry out a Restricted Assessment does so on the express

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understanding and agreement that the CPV/RPV is instructed not to conduct an inspection of the property other than to view from the street frontage. The lender-client agrees to accept the Restricted Assessment having regard to the risks inherent in relying upon a report which does not have the benefit of a comprehensive inspection.

6.3 The lender-client requirements for CPV/RPVs providing this Restricted Assessment service are set down in point form and elaborated upon below:

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

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

- ***‘the property must be identified at its street frontage’***

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

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

The extent of the inspection of the property is to be limited to a point or points at or near its legal frontage(s). The CPV/RPV must not enter onto the property. Where this inspection and the information provided to the CPV/RPV do not enable the CPV/RPV to gain a reasonable impression of the property, the CPV/RPV will be entitled to either increase the market range of the value for the property and/or recommend that a PropertyPRO Residential Valuation and Security Assessment be conducted.

- ***‘the property is to be photographed’***

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

The photograph must be attached to the report confirming inspection and what the Valuer sighted from the kerbside enabling assessment.

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

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

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

If, for example, the visible part of the exterior appears in good condition, well presented and of above average quality, the CPV/RPV is entitled to assume that the remainder of the exterior and the interior is of the same condition.

The lender-client acknowledges that such assumptions will not always be correct, but for the purpose of a Restricted Assessment, the lender-client agrees that the CPV/RPV is entitled to make that assumption.

- ***‘fee simple with vacant possession is to be assumed’***

The CPV/RPV is not expected to search the title or to enquire if there are any leases or occupancy rights. All restricted assessments are to be provided subject to vacant possession with no encumbrances or restriction.

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

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

- ***‘recent comparable sales must be reviewed’***

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

A minimum of three recent sales should be considered for comparison purposes and must

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be retained on file for review in the event of future audit. Details of these sales can be provided to the client on commercial terms acceptable to the parties.

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

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

- ***‘within the above limitations you are to provide, if instructed by the lender-client, an indicative market rental range estimate of the residential property’***

This rental range estimate should be reflective of the market value range adopted.

- ***‘within the above limitations you are to provide the lender-client with general comments on location and amenity of the subject property’***

The CPV/RPV is not expected to undertake additional research, but comment from experience in accordance with RA;3.2 above. An example may be “located close to city, public transport and community facilities available.” The lender-client agrees that it is therefore not necessary for the CPV/RPV to carry out additional research.

- ***‘within the above limitations you are to provide, if instructed by the lender-client, risk ratings in line with the PropertyPRO Supporting Memorandum methodology’***

Based on the information provided and as observed, the valuer is to make specific comment if they believe there is any medium to high risk in the areas of property and / or market risk.

6.4 Any material relied upon or notes taken should be retained on file by the CPV/RPV Member with a copy of the Restricted Assessment report.

6.5 All information provided by the lender-client will form Part A of the Restricted Assessment - Residential Property pro-forma report.

6.6 The Restricted Assessment is to be provided by the CPV/RPV to the lender-client in writing in Part B of the Restricted Assessment - Residential Property pro-forma report.

### 7.0 Indicative Market Value Range

7.1 It should be noted that a market valuation is property-specific and provides a single point assessment in accordance with the definition of Market Value as follows:

*‘The estimated amount for which an asset 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.’*

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

A Restricted Assessment is:

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

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

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

The market range provided is the range estimated by comparison to recent market evidence. As such the midpoint of the range should not be assumed as the valuers opinion of value. The market range provided is the valuers opinion based on restricted information of the highest and lowest value reflected by that evidence.

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

- 7.4 If a Restricted Assessment is provided in a marketplace beyond local market conditions, the range provided should reflect an informed purchaser's and realistic marketing conditions such as would be available to an individual owner on re-sale.

### 8.0 Recommending PropertyPRO Residential Valuation and Security Assessment Report

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

### 9.0 Acceptance of Commercial Risks of a Restricted Assessment

- 9.1 The Institute considers that there are inherent risks to a lender-client who relies on a Restricted Assessment, but, acknowledges that the lender-client has expressed a commercial need for such to be carried out by CPV/RPV Members of the Institute.
- 9.2 A lender-client, in providing its instructions for a Restricted Assessment using the Restricted Assessment - Residential Property pro-forma report, agrees to accept and be bound by the process contained within this Supporting Memorandum.
- 9.3 The Lender client expressly acknowledges and confirms:
- (a) in producing the advice contained in a Restricted Assessment the CPV/RPV has not carried out the usual range of enquiries that a CPV/RPV is required to make by professional practice standards in determining a valuation of property, and that this is at the specific request of the lender-client.
  - (b) that the lender-client fully understands the risks inherent in relying upon an assessment carried out in such circumstances.

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

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

Nothing in this clause 9.3 shall affect the liability of the CPV/RPV and their employer in relation to a Restricted Assessment where the CPV/RPV failed to carry out a Restricted Assessment in accordance with the provisions of the Restricted Assessment - Residential Property pro-forma

report, this Supporting Memorandum and the stated instructions of the lender- client.

- 9.4 The lender- client will not convey a Restricted Assessment or any part of it to the borrower or other third parties, and will keep it confidential and will use it for its first mortgage-related purposes only unless agreed in writing by the CPV/RPV.

## **10.0 CAPPED LIABILITY SCHEME**

- 10.1 Unless the Professional Indemnity Insurance Policy held by the valuation firm includes the following general endorsement, the benefits of the Scheme may be voided.

*'The Professional Indemnity Insurance Policy will not indemnify the Member for any claim directly or indirectly related to, based upon or attributable to or in consequence of any kerbside assessment or restricted assessment, unless conducted in strict compliance with the API guidelines.'*

- 10.2 All members of Australian Property Institute Valuers Limited seeking to enjoy the benefits of the Limitation of Liability Scheme are required to include the following statement in their Report:

*'Liability limited by a scheme approved under Professional Standards Legislation'*

- 10.3 The statement must be printed in a size not less than the face measurement of Times New Roman typeface in 8 point.

It may only be used by those covered by the Scheme.

## **11.0 EFFECTIVE DATE**

- 11.1 The effective date of the Supporting Memorandum is 1 July 2014, although earlier adoption is encouraged.