

Mr Neil Grummitt
General Manager, Policy Development
Policy, Statistics and International Division
Australian Prudential Regulation Authority
400 George Street (Level 26)
Sydney NSW 2000

Dear Mr Grummitt

RE: *Submission RICS Oceania on Draft Prudential Practice Guide 223 Residential Mortgage Lending*

About RICS

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property valuation and management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed standards at a national level. We also work at a cross-governmental level, delivering a single, international standard that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS registered professional can have confidence in the quality and ethics of the services they receive.

RICS has a long history in the valuation profession, being a founding member of what is now known as the IVSC (International Valuation Standards Council) and we still remain as a financial sponsor and major contributor to this international body.

Submission

RICS would like to thank APRA for the opportunity to comment on the draft practice guide and RICS fully endorses APRA's approach to ensuring that ADIs in Australia adhere to prudent practices to ensure the public have the security of best practice in providing, what for many, will be their largest ever transaction will help to continue the viability of Australia's robust lending market.

For the purposes of this submission RICS will limit responses to security valuations.

In consultation with our membership RICS would suggest the following amendments to this section.

- Replace valuer with valuation firm. It is common practice for ADIs to appoint firms of valuers rather than individual valuers for the purposes of mortgage valuations. Certainly with the advent of outsourced panel management systems firms are appointed through these systems.
- Section 63 – We would amend this section to read: “Valuer selection would be conducted by the ADI's risk management area, rather than the sales or *procurement* or product staff in the *valuer* panel *selection* and management would be minimal. It is the view of RICS members that the process to appoint valuation firms should have a high regard to the robustness of the quality and compliance processes of the valuation firm as well as the firm's risk management
- Section 66 – RICS would recommend that this section be amended to: “The valuation management process itself may be effectively outsource to third parties. However it is good practice: (a) for any override of valuation requirements to be limited to senior risk management staff of the ADI (b) for the ADI to retain control.

Why make these amendments to the document? RICS has information from members that in some instances procurement teams within ADIs will become the front team for a project.

While this in itself is not a major issue information from members to RICS is that the procurement team will reverse auction postcodes to valuation firms and have the lowest tendered fee win the contract.

Again, while in itself this may not appear to be an issue for the ADI there is a risk that this process, unless checked by best practice through the APRA guide, could have an impact on the ADI's risk management and quality assurance.

RICS would recommend that to ensure a retrospective look at this process that proactive guidance would be prudent.

RICS also notes the concerns of members of the valuation profession in relation to fees and level of service. While not in the immediate remit of this practice note it should be noted that the level of risk that a prudent ADI would be exposed to in relation to its valuations is commensurate to the level of fees paid to the valuer.

Valuers who are generating mortgage valuations are doing so from a low base of fees, hence they are producing valuations at a high turn over rate for the purposes of breaking even or trying to make profit. This high turn over rate can lead to errors in the valuation. A better remuneration mechanism that is reflective of the professional level to which valuers in Australia attain would be recommended, constructed in concert with the lending institutions, professional associations representing valuers in Australia and APRA.

RICS is happy to discuss these matters with APRA at a mutually convenient time

Regards

Collin Jennings
Government Relations Manager
RICS Oceania