

Home Report

Response by the Council of Mortgage Lenders to the Scottish Government consultation

Introduction

1. The Council of Mortgage Lenders (CML) is the representative trade association for mortgage lenders. Our 116 members comprise banks, building societies, insurance companies and other specialist mortgage lenders who, together, lend around 95% of the residential mortgages in the UK. In addition, the CML's members have lent over £60 billion UK-wide for new-build, repair and improvement to social housing of which just under £4 billion is in Scotland.

2. CML Scotland welcomes the opportunity to respond to the consultation by the Scottish Government on the Home Report.

General

3. The majority of questions posed in this Consultation are not relevant to our members as they are not relying on the Home Report but rather on the contents of a Generic Mortgage Valuation (GMV) which flows from the Home Report which is then transcribed onto a valuation report in the format of the lender relying on it.

4. As the Consultation highlights the majority of lenders took the view when the Home Report was introduced that they would accept a valuation flowing from a GMV contained within the Home Report provided it was less than 3 months old and the surveyor was on their panel of surveyors.

5. While this largely still remains the case issues have arisen with the Home Report since its introduction which we have highlighted in the section of this response entitled "**Lender issues with Home Report**" which have caused some lenders to review their policy.

6. As a result some lenders will no longer accept a valuation flowing from GMV where:

- Where the purchase price of the property is more than 10% lower than the valuation contained in the GMV; and
- Where the purchase of the property is for buy to let (BTL) purposes.

Section 1 Home Report objectives

7. We believe that in considering whether the Home Report is meeting its objectives it is necessary to look at each of the objectives in turn.

8. We do believe that the Home Report has provided improved information about property condition to both sellers and purchasers in that it contains more information than is contained in a valuation for mortgage purposes which the majority of purchasers relied upon before the introduction of the Home Report. In the absence of any evidence it is difficult to say whether this has incentivised repairs or improvements to be carried out to improve the condition of the property. Evidence of this in the long term will come from whether or not the Scottish Housing Condition Survey shows improvement in the quality of the stock in the private sector. In the shorter term it may be worth gathering evidence from research amongst sellers and buyers as to whether they have carried out repair/improvement works based on information contained in the Home Report. One of the potential

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benefits of a database of Home Reports is it could highlight whether the condition of individual properties is improving.

9. So far as the objective of Home Reports removing the need for buyers to pay for multiple valuations and surveys it could be argued that this was addressed prior to the introduction of the Home Report by the introduction of the practice of making offers subject to survey. The introduction of the Home Report and the more difficult conditions in the property market have resulted in additional costs, particularly with Home Reports having to be refreshed in slow moving markets. It could be argued that the burden of costs has simply been passed from buyer to seller.

10. We do not believe the Home Report has addressed the issue of artificially low asking prices. Many properties are still marketed at an “offers over” figure and that often is well below the valuation figure contained in the Home Report. This clearly is still being used as a marketing tool to encourage interest from prospective buyers in the property although serious buyers will have the benefit of seeing the Home Report and knowing whether they can make an offer commensurate with the valuation figure.

11. It is our view that the only objective which is still valid for the Home Report is the one on property condition.

12. We expressed the view during the working parties which were set up to **develop** the Home Report that a national register of Home Reports should be established. In our view there would be many advantages to this as it would readily provide information on whether both the condition and energy efficiency of properties was improving. This is important if Scotland is to achieve its climate change targets. A database of information such as this would provide information which would assist in the on going development of desk top valuations which may assist in containing valuation costs going forward. It could potentially also act as an anti fraud measure and highlight situations where sellers were instructing more than one Home Report when exposing their property for sale. It maybe that the valuation industry would be interested in developing such a register and it has a track record in this regard with the likes of the development of the Quest system.

Section 2 How Home Report is working

13. Lenders are not involved with the commissioning of Home Reports and it's therefore difficult for us to comment upon whether the disclosure regime is for example working effectively. We do believe however that there may be issues around the influence of selling agents. For example when a Home Report has to be refreshed because the valuation is out of date for there has been a reluctance to reduce the valuation to reflect current market conditions.

14. In particular, a matter which taxes the mind of lenders is the issue of ‘conflict of interest’. South of the border we commonly encounter situations where, for example, a surveyor employed by a major Group may inspect and value a property being sold by an Estate Agent within the same Group acting for the seller. We are comfortable enough with this situation and to try to control and avoid it would be nigh impossible due to the many different trading names used. However, in Scotland the relationships are somewhat more complicated.

15. In Scotland it is common for say a surveyor employed by the same Group to actually be instructed by an Estate Agent in the same Group acting for the seller to value the property for the Home Report, then provide a copy of the report to a prospective purchaser, and finally to provide a mortgage valuation to a lender. This goes much further than it does in England and Wales and we wonder if this should be looked at as part of the review. In England the surveyor has no role in setting the price but under the Scottish system the Home Report assessment must play a large part in influencing final sales strategy and pricing. Is it a relationship too far?

16. An alternative would be that firms of surveyors who “are part of the same parent company or trading group”, are barred from doing Home Reports on properties being marketed by other firms who are part of the same group. This would ensure a greater degree of objectivity and the work would be more freely circulated around the market. It would bring greater transparency for the prospective

purchasers who would know there was less room for undue influence and more objectivity in the advice.

17. At present lenders will normally only accept a valuation flowing from a Chartered Surveyor registered with RICS. If the Scottish Government was minded to authorise other organisations to prepare Home Reports then lenders would want to satisfy themselves that similar protection was offered as that afforded by RICS members in terms of training and competence, professional standards, maintenance of professional indemnity insurance and redress schemes before they would be willing to rely on a valuation provided by such an organisation.

Section 3 Home Report Documents

18. The valuation contained in the Home Report is prepared on behalf of the seller at the time the property is marketed for sale whereas under the previous system the valuation was prepared on behalf of the purchaser when the potential purchase price was known. Lenders normally require surveyors to provide them with an accurate indication of the current value of the property based on current sales and marketing evidence. In the recent downturn in the property market we have seen limited evidence of valuers being willing to say to the lender that the valuation contained in the GMV is inaccurate even although the sale price agreed between the seller and purchaser in the open market may be much less than the valuation contained in the GMV. This is a major concern for lenders and reflects a flaw in the current Home Report system.

19. We believe that in addition to expanding the Property questionnaire to include questions on fees due to Land Maintenance Companies it could also be expanded to cover questions in relation to energy efficiency measures installed in the property. For example if solar panels are installed are they owned outright or leased and how much do they earn in terms of the Feed in Tariff. There should also be a question if any of these measures are financed through the Green Deal.

Issues for Lenders

20. Where a refreshed Home Report is required lenders are seeing delays in producing a valuation for their purposes. This is in all probability due to the fact that there will be a negotiation between seller and purchaser regarding the costs of refreshing the Home Report. From the perspective of lenders it would be quicker for them to instruct a valuation for mortgage purposes. Delays of this nature will impact on the ability of lenders to issue mortgage offers at what is a time critical part of the mortgage process.

21. The point highlighted in 18 above is a major concern to lenders. It has a number of impacts in terms of product pricing, the accuracy of current and future lending decisions in relation to the property concerned, whether or not the correct level of regulatory capital is being set aside for the mortgage and inaccurate information being given if the mortgage is to be securitised.

22. When instructing a valuation for mortgage purposes a lender will advise the surveyor of the sale price as notified to them by the potential borrower. It is the practice of surveyors to check this out with the seller or selling agent. This is a valuable anti fraud tool. It does not appear that these checks are happening where a transcript is being obtained from a GMV.

23. Lenders have individual lending policies. For example you may have one lender who is prepared to lend against a particular type of property whereas another is not. These policies will represent the lender's risk appetite. Unfortunately the GMV cannot handle each lender's policy and when reports are being transcribed into the lender's format they can only include the information contained in the GMV. As a result matters relating to individual lenders policies are not being reported upon. This consequently means that some transcripts from the GMV are not fit for purpose so far as lenders are concerned.

24. In 6. Above we highlighted that some lenders will no longer accept a valuation flowing from a Home Report where the purpose of the loan is BTL. This is because they are seeing increased risks

in accepting Home Report valuations for this type of lending and prefer to instruct their own valuation. When the Home Report was designed there was no consideration given to BTL but a practice has developed of some surveyors including information concerning rental yield in the GMVR (while others do not) even although there is no mention of this in the Home Report. In addition we are also seeing cases where a refresh of the Home Report is carried out including information on rental yield in the GMVR even if it was not in the original GMVR. This apparently is on the basis that it is discovered the purchaser is buying for BTL purposes. We believe that this issue needs to be considered as part of the review.

25. We believe that unless these issues can be addressed as part of this review there will be an increasing trend of lenders seeking their own valuation for mortgage purposes.

Further contact

26. This response has been prepared by the CML in conjunction with its members. Any comments or enquiries should, in the first place, be directed to:

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