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Bank Supervision Department

BANK OF NAMIBIA

No.1 2010

GUIDELINE UNDER THE BANKING INSTITUTIONS ACT, 1998 (ACT NO.2 OF 1998): VALUATION OF RESIDENTIAL MORTGAGE PROPERTIES

In my capacity as Governor of the Bank of Namibia (Bank) and under the power vested in the Bank by virtue of section 3(1)of the Banking Institutions Act,1998 (Act No 2 of 1998), I hereby issue the guideline on **valuation of residential mortgage properties (BIG-1).**

I.W. SHIIMI
GOVERNOR

Windhoek, 05 May 2010

Guideline No BIG-1

VALUATION OF RESIDENTIAL MORTGAGE PRORERTY

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PART I: PRELIMINARY

1. **Short Title** – Valuation of residential mortgage properties

2. **Authorization** - This valuation guideline is issued in terms of section 3 of the Banking Institutions Act, 1998 (Act No 2 of 1998).

3. **Application** - This guideline applies to all banking institutions authorised by the Bank to conduct banking business in Namibia.

4. **Definitions** – Terms used within this guideline are as defined in the Act, as further defined below, or as reasonably implied by the contextual usage.

   4.1 **Acceptable collateral** - means any collateral in which the lender has a perfected security interest that has a quantifiable value.

   4.2 **Consolidation of credit facilities** - consolidation refers to cases where balances from other credit facilities accounts are transferred to residential mortgage loan account as part of recovery of non-performing loan accounts other than mortgage loans.

   4.3 **Construction loan** – means the extension of credit for the purpose of erecting or rehabilitating a building or other structure, including any infrastructure necessary for development.

   4.4 **Fair market value** – The price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation.

   4.5 **Forced sales value** – A property price that is lower than the reserve price determined by the bank for the purpose of disposing off of a repossessed property.

   4.6 **Land development loan** – means an extension of credit facility for the purpose of improving the land prior to the erection of structures (which may include the levelling of the ground, laying or placement of sewers, water pipes, utility cables and other infrastructure necessary for future development).

4.7 **Loan amortization schedule** – means a payment plan that enables borrowers to reduce their debt gradually through monthly payments. The payments may be principal or interest-only. The monthly amount is based on the schedule for the entire term or length of the loan.

4.8 **Loan origination** - means the time of inception of the obligation to extend credit (i.e. when the last event or prerequisite, controllable by the lender, occurs causing the lender to become legally bound to fund an extension of credit).

4.9 **Loan-to-value or Loan-to-value ratio (LTV)** - means the relationship or percentage, between the principal amount of a loan and the appraised value of the property the lender is willing to finance with a mortgage.

4.10 **Mortgage** - means a lien on the property that secure a promise to repay a loan. A security agreement between the lender and the buyer in which the property is the collateral for the loan granted. The mortgage gives the lender the right to collect payment on the loan and to foreclose if the loan obligations are not met.

4.11 **Reserve price** – means a seller's stated price for a property.

4.12 **Un-serviced land loan** – means an extension of credit facility for the purpose of purchasing land that is in its natural state or unimproved land (which requires improvement prior to its usage).

4.13 **Value** - means an opinion or estimate, set forth in an appraisal or evaluation, whichever may be appropriate of the market of residential properties. For the purpose of obtaining a loan to purchase an existing property, "value" means the lesser of the actual acquisition cost or the estimate of market value.

PART II: STATEMENT OF POLICY

5. **Purpose** – This guideline is intended to set out the minimum uniform standard of residential mortgage property valuation practice, which all banks in Namibia shall apply at all time. It is also intended to promote sound and prudential banking practices on valuations of residential mortgage property.

6. **Scope** - This guideline applies to all residential mortgage exposures held or reflected on a bank's balance sheet or otherwise held or reflected as off-balance sheet items.

7. **Responsibility** - The board of directors of each bank shall be responsible for establishing policies and procedures which are adequate to ensure that all residential mortgaged exposures fully conform to this guideline. The directors are also responsible to cause a review and approve at least annually such policies and procedures relating to residential property assessment.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

8. **Loan to value Ratio/Limit** – Banks shall establish their own internal loan-to-value limits for residential mortgage loans. These internal limits should not exceed the following regulatory limits.

Regulatory Limits

Loan category	Loan to value limits (%)
Unserviced land & land development	60
Serviced land	70
Construction or erecting building	100
Purchasing of existing property	100
Improvement of existing property	100

In an event, where banks grant loans amount above the regulatory limit, such exposure shall be risk-weighted at 100% instead of 50%.

9. **Exception** – An exception from the regulatory limits shall only apply when the excess of residential mortgage loan is secured with collateral recognised under BID-5 for the purpose of providing capital relief.

10. **Valuation of existing residential property for a new loan** - Where a bank is extending a loan to a client for the purpose of acquiring a residential property which in turn will be used as collateral for the loan advanced, the property must be valuated. A complete valuation report signed off by the valuator must be obtained prior to the disbursement of the loan amount.

    For the purpose of this guideline, a complete valuation report is the one detailing an assessment done physically on the inside and outside of the property valued. Outside inspection or observation done will not be recognised by the Bank.

11. **Valuation of new residential property** - In normal practice, banks are extending loans for the construction of new residential property based on the approved municipal plan, and where this is the case, regular valuation reports based on the progress achieved in terms building work completed, should be obtained from time to time to assess the quality of work performed and facilitate the progress payment in terms of the loan agreement.

12. **Taking over loan from one bank by another bank** - Where an exposure is secured by residential mortgage bond and is being taken over by another bank, the bank wishing to take over such exposure shall cause the property taken as collateral for that exposure to be valuated. Therefore a fresh, complete and signed valuation report should be produced by the banking institution which is taking over the loans. However, if the banking institutions handing over the account can produce a valuation reports that is not older than six months, it is acceptable.

13. **Valuation of property financed by two or more banks** - Where a new loan is advanced against residential property which are already financed by another bank other than the institution extending new loans, the bank extending the new loan shall conduct a fresh valuation of the property before the new loan is granted.

14. **Valuation of property at disposal** – The following procedures shall apply to the valuation of residential property at disposal:

    i. Where an attachment order has been served on the residential property and repossessed, the bank concerned should carry out a fresh valuation to ascertain the value of such property regardless of whether a previous valuation was carried out before repossession took place. In the event where the bank intends to sell the attached property on sale in execution, the forced sales value (FSV) shall be used.

However, under exceptional circumstances, fair market value (FMV) may be used, for example, where the bank feels strongly that the property bonded is worth FMV and there is evidence to that effect;

ii. Where an auction is pending and reserve price (RP) has been fixed, RP shall be used;

iii. Where the auction has been aborted and FSV of the property is lower than the RP, and in the absence of new RP, FSV shall be used;

15. **Valuators and valuation reports** –Since valuation of land and properties in most cases are based on certain assumptions, valuators are required to elucidate their assumptions adopted to support the value estimated and also to allow for replication[1]. Additionally, valuation reports should indicate both the **fair market value** (open market value) which is normally accepted for credit appraisal purposes, and **forced sale value** which is commonly used for classification of credits and determination of specific provisions for loan losses.

16. **Frequency of valuation** - For the purpose of providing credit protection, when a bank processes any of the under mentioned transactions a valuation should not be older than 6 months; else a fresh valuation should be obtained:

i. When further advance or additional mortgage is applied for;
ii. When repayment become arrears (90 days or more);
iii. When dispute relating to the insurance replacement value arises;
iv. When the application for the release of collateral or any additional security is received;
v. On application for a third party bond; and
vi. On application for a subdivision of an erf.

The valuation referred to above is strictly applicable to residential properties situated in Namibia only. For residential properties outside Namibia, then the provision of BID-17 will have to be followed.

[1] For the purpose of this determination, replication means that the methodology and assumption used to arrive at the said value should be systematic such that in an event of dispute another valuator should be able to reach to same value or close to it.

17. **Consolidation of credit facilities** - Transfer of debit balances from other credit facilities other than those that are secured by residential mortgage property to mortgage loan accounts as part of recovery or an effort to reduce the amount of specific provisions required shall not be allowed.

18. **Transitional provisions** - Banks should ensure that all valuations of residential mortgage property conducted subsequent to the issuing of this guideline are done in accordance with this guideline.

19. **Reporting requirement** – a bank shall, at the end of each calendar quarter submit to the Bank a return or information in terms of this guideline in the format, frequency and submission date as specified by the Bank.

Questions relating to this Guideline should be addressed to the Director, Banking Supervision Department, Bank of Namibia, Tel: 283 5040.

ANNEX A

Banks are required to submit to the Bank at the end of each calendar quarter the following information:

Description / distribution	**Number**
The number of residential mortgage loans granted and taken up during the calendar quarter with the loan amount up to N$500, 000-00.	
" " " more than N$500, 000-00 and up to N$1,000,000-00.	
" " " more than a N$1,000, 000-00 and up to N$1,500,000-00	
" " " more than a N$1,500, 000-00 and up to N$3,000,000-00	
" " " more than a N$3,000, 000-00	
Total of residential mortgage loans granted and taken up as at quarter end........	