

**“An UN and European prospective to protect the public interests: Policy Framework, Green Paper and the AIFM Directive proposal”**

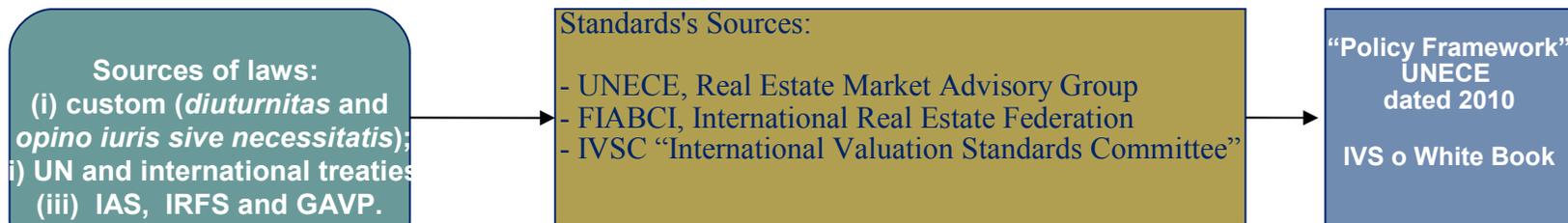
**Mortgages, risk and valuation**

**ERES Annual Meeting 2010, Bocconi, Milan (Italy), 23rd – 26th June**

**24<sup>th</sup> June 2010, 16.15-17.45, room N01**

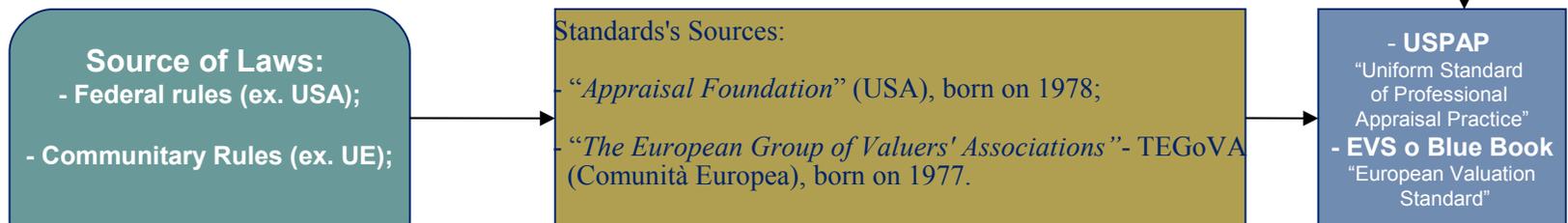
# International Legal Framework

## International level



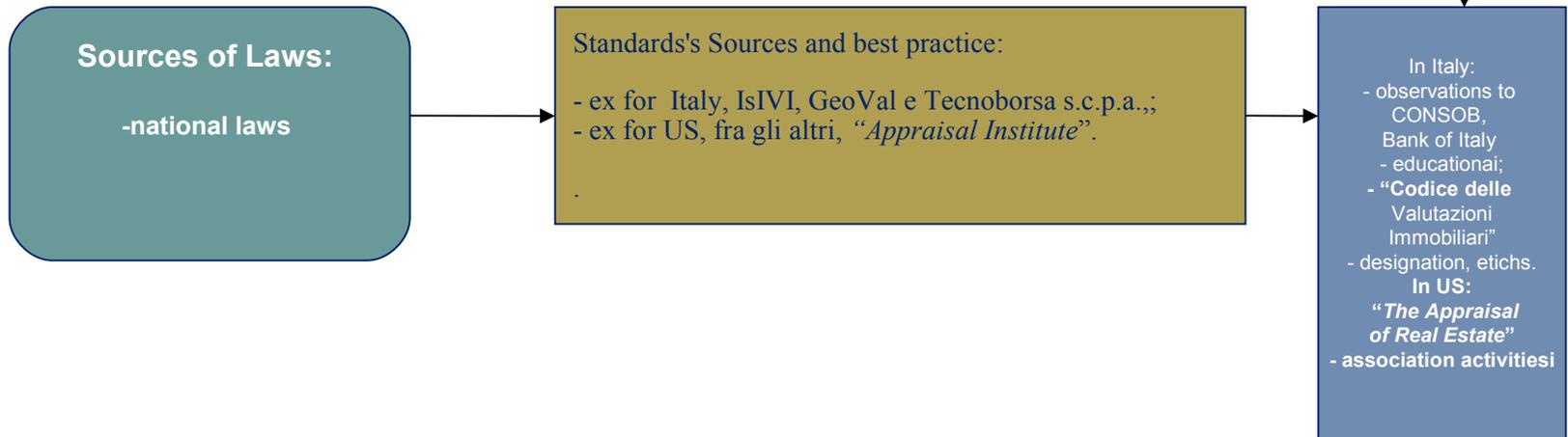
## Regional Level

(possible level)



## National Level

(necessary level)



# The European Group of Valuers' Association - TEGoVA

## Its history?

- The first federation of European associations has been constituted on 1977 under the name of TEGOVOFA (“*The European Group of Valuers of Fixed Assets*”). The first European standards has been issued on 1978 following the so called fourth directive on the book and company balance sheet. On 1989 the European committee of FIABCI has been created and based in Brussels. From such initiative CEPI (*Conseil Européen des Professions Immobilières*) has been constituted; inside it a branch EUROVAL took place. On 1992 TEGOVOFA merged with EUROVAL to create TEGoVA. On 1995 the first EVS edition published by TEGoVA has been issued. Today there is the 6<sup>th</sup> edition.

## Where is the head quarter?

- TEGoVA is based in Bruxelles after a short period where it was based in London.

## Who are the members?

- 39 associations of 24 countries plus observer as the Appraisal Institute.

## Languages of the EVS?

- 8 languages including English, Italian, French, Spanish, Greek, Lithuanian and Hungarian.

## Italian members?

- 3 members: Istituto Italiano di Valutazione Immobiliare (I.I.V.I.), Consiglio Nazionale dei Geometri (CNG) and Associazione Geometri Valutatori Esperti (Geo.Val.).

## UN Level: Sustainable Real Estate Markets

### Real Estate Role in the Economy

A fully functioning and well regulated real estate market can be an important factor to enhance the economy of countries (“Policy Framework for Sustainable Real Estate Markets” UNECE 2010). Formally supported worldwide by the International Real Estate Federation – FIABCI whose IsIVI is a principal member

### Transparency

Transparency and appropriate valuation of real estate assets used as collateral for advanced financial products can produce social and economical benefits and reduce the probability of future financial crises. (“Principle 7”)

### Rationale

The financial crisis has highlighted a key factor in the relationship between the real estate and financial worlds. The lack of transparency in the assessment of the value and the risk of investments in real estate assets, especially when it has been used to back financial products, appears to be one of the causes for the current crisis. The problem is exacerbated by the absence of compatible regulations at a global scale. The lack of harmonized legislation affects not only financial institutions and their financial products, but also the collateral and other warranties backing these products, which are often real estate assets. Consequently, any discrepancy in the assessed property value and the actual market value will increase the risks attached to real estate, as potential investors may be purchasing titles of uncertain value.

## EU Level: example the “green paper” mortgage credit (before crisis)

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### ***EU Green Paper Mortgage Credit***

The European Commission has created on 2003 the “Forum Group on Mortgage Credit” in order to study the armonization of the mortgage credit in Europe. On the 2004 the works of such commission have been published under the name “The integration of EU Mortgage Credit” or “Green Paper”. On Dicembre 2005 there has been in Bruxelles a public hearing where IsIVI was directly represented. On 22 december 2006 it has been issued by “The Mortgage Funding Expert Group” or MFEG the “Executive Summery” i.e. the “Final Report” of such activities.

### ***Paragraph 3.2 of Final Report***

European standards, covering common definitions for a certain number of basic technical terms like market value, mortgage lending value, etc. should apply to valuation principles to ensure transparency. A European standard shall also include requirements regarding the valuation approach and the content of the valuation report. MFEG suggests that TEGoVA or another international body should take the lead in this exercise.

### ***Paragraph 1.3.2 of Final Report***

Property valuation affects mortgage funding in four ways. First, for banking supervision, the preferential risk weight of mortgage loans under the Capital Requirements Directive (CRD) requires consistent property valuation in order to define the part of the loan which is eligible to the preferential treatment. Second, in terms of covered bond funding, consistent property valuation and loan-to-value ratios are one of the core eligibility criteria of mortgage assets being accepted as cover assets and any national covered bond legislation refers to property valuation as a fundamental criterion for the safety of the covered bond instrument. Third, for RMBS transactions, any rating of RMBS transactions requires a valuation of the mortgage assets to be securitised. Fourth, for whole loan sales, mortgage portfolio trading relies on consistent portfolio valuation and property valuation techniques. The importance of consistency and disclosure is particularly acute where cross-border transactions are being considered.

## Post Crisis, some considerations: relationship Real Estate & Financial Sector

### Real Estate Authority?

It might be useful to have an authority covering and monitoring all the financial products backed by mortgage and/or Real Estate interests (hereinafter “**Real Estate Financial Products**”) including listed companies, MBS ect?

The recent crises has highlighted (i) the fragmentation of the control over the Real Estate Financial Products and (ii) a lack of communication between the financial sector and the Real Estate one.

### Scope

To protect the public interests

### Information and languages

The Real Estate Financial Products needs a common language shared between the financial sector and the Real Estate one: Real Estate Rating and proper information in the offering memorandum?

### AIFM

Directive proposal on Alternative Investment Fund Managers (AIFM)?

## IsIVI's International alliance: Appraisal Institute

### Common Vision

IsIVI shares with the Appraisal Institute a common vision

### AI's Testimony

23/4/2009

Please refer to the Testimony presented on behalf of the Appraisal Institute, the American Society of Appraisers, the American Society of Farm Managers and Rural Appraisers and the National Association of Independent Fee Appraisers Before the House Financial Services Committee on H.R. 1728 The Mortgage Reform and Anti-Predatory Lending Act Presented by Jim Amarin, MAI, SRA as President Appraisal Institute

**That is what is supposed to happen.**

*“We are here to work on restoring integrity to the process, which, too often, has been corrupted by mortgage fraud. The mortgage industry has long suffered structural problems. Much of it, including appraisal, has regulation in place, yet many regulatory gaps still exist today, which invites devious participants to skirt basic safety and soundness requirements. Further, government regulators have been asleep at the switch on matters of oversight and enforcement. Existing rules have not been enforced adequately. Underfunding cripples many government oversight agencies, and structural deficiencies and unwillingness to act contribute to their ineffectiveness. Structural reforms for regulatory regimes must emphasize and strengthen oversight”.*

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## Contacts

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