

Loan working

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Kate Taylor introduces the new competency Loan security valuation and details what APC candidates need to know

Since 1 August, all candidates enrolling on the RICS Assessment of Professional Competence will be declaring competence under the [new pathway guides](#) , and candidates already enrolled may switch to the new guides as well if they wish. The changes are detailed in a useful summary document, [Pathways to professional qualification ? summary of changes](#) . Candidates should read this when deciding whether to switch to the new pathways.

The updates to the pathways include several new competencies, and 1 of the most significant for real estate professionals is likely to be [Loan security valuation](#) . The first opportunity to assess the new pathways is session 2 of the 2018 final assessment, taking place in October and November. The Loan security valuation competency will be new to both candidates and assessors.

The new competency

The Loan security valuation competency has been established a direct result of the consultation process for the draft pathway guides; in other words, it has been driven by the profession. It covers valuation for the specific purpose of loan security in accordance with valuation standards ? the [Red Book](#) ? for residential or commercial property.

Requirements for the competency?s 3 levels are detailed below.

Level 1

At this level, candidates are required to ?Demonstrate knowledge and understanding of the financial market and how this is supported by valuation advice, including the role and importance of debt finance in property (such as principal forms of debt and their sources), trading assets and loan security, the relevant valuation standards (Red Book) and relevant negligence case law, due diligence relevant to loan security valuation, particularly conflict of interest, and risk management in property lending decisions.?

In practice, this means making sure you have the background knowledge relevant to loan security valuation; this will help reassure assessors that you understand the relevant financial markets and the background to potential negligence. There is also some overlap between this and the competency [Property finance and funding](#) .

Key to success will be understanding how debt finance works and the valuer?s role. Inevitably, a good understanding of the Red Book and conflicts of interest will be expected, in particular the parts relevant to secured lending.

Level 2

Candidates should demonstrate practical competence in undertaking valuation for the purpose of loan security using appropriate techniques, including the application of the relevant valuation standards (Red Book) to valuation, incorporating lenders' specific requirements into a valuation, and appropriate research into factors affecting risk in loan security valuation. They should also identify factors that affect the ability to obtain finance.

Level 2 is about putting Level 1 knowledge into practice and actually producing the valuations. The key point here is that the focus should be on meeting a lender's requirements for specific information to inform a lending decision; this will vary between lenders and exceed the Red Book requirements. This will overlap with valuation, but the emphasis should be on fulfilling the lender's requirements, based on their specific risk assessment needs.

Level 3

At Level 3, candidates need to provide evidence of complex reasoned quantitative valuation advice to clients in the form of compliant valuation reports. For example: SWOT [strengths, weaknesses, opportunities, threats] analysis, commenting on loan terms, commenting on future performance of the investment and commenting on the influences of the wider market. They should also describe the complex reasoning behind ... recommendations to client in order to mitigate clients' risk.

This is about giving the advice to the lender and being able to explain that advice clearly, which can be demonstrated by describing the contents of the report and how the valuation methodology was illustrated to the client. The key to achieving Level 3 is a thorough understanding of the client's needs, and meeting these with your valuation report.

Overlaps

There may be some concern about the overlap between the Loan security valuation competency and that of [Valuation](#). The new competency will provide extra flexibility for candidates specialising in loan security valuation, but such candidates are still expected to select both competencies.

The Valuation competency provides the opportunity to talk about technical valuation methodology and advice for all valuation purposes, while the Loan security valuation competency focuses on more complex, specialist advice and enables candidates to describe this in the context of financial markets.

Candidates selecting the Valuation and the Loan security valuation competencies can avoid duplication by demonstrating competence for the former in valuation methods and techniques and numeric advice to clients and, for the latter, in specialist qualitative advice to mitigate financial risk.

Careful consideration

The new competency provides an opportunity to showcase valuation experience in a specific sector. Valuers are advised to think carefully about which pathway and competencies demonstrate their competence to best effect.

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Further information

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Related competencies include [Loan security valuation](#)

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This article has been taken from the [RICS Property journal](#) (October/November 2018)

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Related categories: [APC \(candidates\)](#) ; [Property finance and funding](#) ; [Valuation practice/methodology](#)