Withdrawal of 'Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future (2012)'

August 2019

Since the issuing of the "Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future" by the Central Bank of Ireland in 2012, the legal and supervisory requirements for the valuation of immovable property collateral have been revised considerably. The Central Bank of Ireland are therefore withdrawing the "Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the "Future (2012) ('Valuation Guidelines') effective immediately.

The Central Bank of Ireland issued the Valuation Guidelines to provide guidance to credit institutions on valuation standards for commercial property and to set out best practice in relation to the timing and frequency of valuations of immovable property collateral.

Credit institutions should ensure their collateral management practices are in line with all relevant and applicable regulations, which shall include:

- The Capital Requirements Regulation (Regulation (EU) No 575/2013);
- S.I. 142/2016 (Consumer Mortgage Credit Agreements) Regulations 2016;
- EBA Guidelines on the Management of Non-Performing and Forborne Exposures;
- ECB SSM Guidance to Banks on Non-Performing Loans;
- EBA Guidelines on Credit Institutions' Credit Risk Management Practices and Accounting for Expected Credit Losses (2017).

Consideration should continue to be given to ensuring the following lessons learned are retained:

1. **Weaknesses in instructions given to valuers:** Poor valuation instructions were a contributing factor to the level of property losses incurred by lenders. Valuations based on vague instructions provided inaccurate values and therefore inaccurate assessments of risk at the time of underwriting.
2. **Conflicts of interest are unacceptable:** During the volume led transaction phase of the boom in property development, certain valuation practices were accepted by credit institutions that involved significant conflict of interest.
3. **Valuer panel management:** There were weaknesses in the appointment, utilisation and performance review of valuer panels by credit institutions. This included the utilisation of valuers without appropriate experience, qualifications and professional indemnity insurance for the particular assignment.

4. **Frequency of valuation review / underassessment of provisions:** Credit institutions often failed to conduct regular valuations, thereby avoiding the issue of recognising value diminution resulting in under-assessment of impairment provisions.

5. **Inappropriate use of informal valuations:** During the property lending boom, there was increased reliance on informal valuations by credit institutions. These were utilised as if they were full valuations. To properly assess risk during lending reviews, full valuations are required.

6. **Valuation inputs in credit decisions and risk management:** Credit institutions did not sufficiently consider sensitivity analysis in the assessment of property values and credit risk.

7. **Training was inadequate:** There was inadequate training regarding collateral valuation methodologies, interaction with professional valuers, the interpretation of valuation reports and the importance of valuations in credit risk assessment.