



Bulletin 6

# Property Assessments





The issue of mortgage bond evaluations has been raised on numerous occasions over the last few years. Based on the number of complaints still being received, the issue appears to remain unresolved.

Complaints are commonly based on the following circumstances:

- The bank's clients apply to the bank for finance to purchase a home.
- The bank's evaluator inspects the house and makes no mention of any defects of any kind.
- The finance is approved, and the bond is registered.
- Soon after the client moves in, defects, which may have been disguised or are not easily seen, are noticed.

These defects can be very serious, for example:

- Ground movement in the area, which causes walls to crack or fall.
- Bank clients also apply for building loans. The bank's inspector is sent out to check the progress. After the final payment is made, the client then notices defects in the building work done.

In both these types of scenario, the bank states that the evaluation is conducted for the sole purpose of assessing the security and accepts no responsibility for any defects in the property.

This situation is referred to, in the following clauses of *The Code of Banking Practice*:

## 8.2 *Mortgage loans*

*When you apply for a mortgage loan, and on request, we will make available to you written information about:*

- 8.2.1 *the operation and repayment of your loan, including all the charges and costs, the benefits of payment acceleration and the additional interest and costs payable should your account fall into arrears;*
- 8.2.2 *the potential impact of variable versus fixed interest rates;*
- 8.2.3 *the possibility of losing your property should you not keep up your loan repayments;*
- 8.2.4 *the need to be careful when signing building progress payment documents;*
- 8.2.5 ***the role of your bank in appraising the property and the difference between a market valuation, the assessed security value of the property, and the minimum replacement cost placed on the buildings and improvements for insurance purposes;***



**8.2.6** *how to get advice on the structural quality of the property, compliance with local authority requirements and replacement costs of the buildings and improvements from the proper experts.*

*(Your bank is not responsible for determining the structural quality or any defects in the property); and*

**8.2.7** *how annual insurance premiums and other charges and administrative matters can be dealt with after your mortgage loan has been repaid in full.*

Based on the complaints we are receiving, clients are not aware of clauses 8.2.5 and 8.2.6 and banks do not inform their clients of the purpose of the appraisal. Providing a copy of the relevant clause in the Code to any applicant for a bond would seem to be a very simple procedure.

This is clearly an untenable situation, and one which needs to be addressed as soon as possible. The making of an award in these this type of case is made difficult by the fact that it will often be necessary to call expert witnesses to prove the extent of the damages suffered. Disputes can arise as to whether the work was adequately carried out. These disputes may make it necessary for cross-examination, which is more appropriate for a court. We will however evaluate any related complaint on its merits and make an appropriate award where necessary.

**The Ombudsman for Banking Services**

Reviewed January 2018