SPANISH MORTGAGE COLLATERALS APPRAISAL SYSTEM: METHODOLOGY, REPORTING, APPRAISAL COMPANIES, AND SUPERVISION

Miguel Ángel López Gómez
Banco de España

Sound collateral valuation and its impact on provisioning for NPLs

International conference
A comprehensive approach to NPL resolution – international experiences

WWW.WORLDBANK.ORG/FINSAC

May 15-16, 2018
Vienna, Austria
THE INFLUENCE OF CLIENTS ON VALUATIONS

INFORMATION: MARKET PROPERTY

APPRAISER

POWERS
- REWARD-COERCION
- INFORMATION
- EXPERT POWER
- PROCESS POWER

FACTORS:
- ENVIRONMENT
- PURPOSE
- IDIOSYNCRATIC CUSTOMER APPRAISER

VALUE

CLIENT

Levy & Stuck (2005)
SOCIEDADES DE TASACION: SPANISH APPRAISAL SYSTEM

- METHODOLOGY
- REPORTING
- DATA BASES
- CERTIFICATION
- SUPERVISION
- TRUST
ANEJO 9: CIRCULAR 4/2017

ECO 805/2003

NPL ECB GUIDE

AVM 2018 GUIDE BDE
REPORTING

BANKS

TECHNICAL INSTRUCTIONS

REPORTING BDE:
- HOUSING
- LAND
- AVM

ECO 805/2003: REPORT TEMPLATE

CIRCULAR 3/1998: STATEMENTS

A COMPREHENSIVE APPROACH TO NPL RESOLUTION
TOOLKIT

- Housing Appraisals Mass Analysis (AMTh))
- Land Appraisals Mass Analysis (AMTI)
- Land Risk Matrix (MRS)
- AVMS (Automated Valuation Models):
  - Mass Analysis
  - AVM Implementation Guide (Appraisal companies & Annex 9)
- Risk Indicators
  - Appraisal value/Registered Price
### TOOLKIT: MASS APPRAISAL ANALYSIS

#### Residential - What information do we have?

**Table:**

<table>
<thead>
<tr>
<th>Timeline</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time of data</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Tasks</td>
<td>Pilot Exercise (8 appraisal companies)</td>
<td>Pilot Exercise II (38 appraisal companies)</td>
<td>Supervisory exercise (35 appraisal companies)</td>
<td>Supervisory exercise (36 appraisal companies)</td>
<td>Supervisory exercise (35 appraisal companies)</td>
</tr>
<tr>
<td>Scope</td>
<td>Residential (houses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of elements (individuals)</td>
<td>345,574</td>
<td>874,645</td>
<td>728,016</td>
<td>873,602</td>
<td>1,023,507</td>
</tr>
<tr>
<td>Total value</td>
<td>50,8 Milliard€</td>
<td>133.2 Milliard€</td>
<td>110.6 Milliard€</td>
<td>130.5 Milliard€</td>
<td>162.8 Milliard€</td>
</tr>
<tr>
<td>Number of elements (AVMs)</td>
<td>-</td>
<td>2,016,835</td>
<td>4,084,065</td>
<td>4,579,893</td>
<td>1,573,683</td>
</tr>
<tr>
<td>Total value</td>
<td>-</td>
<td>324.0 Milliard€</td>
<td>418.9 Milliard€</td>
<td>713.1 Milliard€</td>
<td>197.7 Milliard€</td>
</tr>
</tbody>
</table>

Milliard = Billion

#### Qualitative information:
- AVM Model Data Sheet: characteristics, methodology, etc.
- AVM Questionnaire sheet: performance and characteristics for each portfolio and entity.
TOOLKIT: MASS APPRAISAL ANALYSIS

Residential - What do we do with this information?

PHASE I: Data Quality Review

PHASE II: Valuation Process Review

PHASE III: Appraisals Comparison Statistical Analysis

Homogenous Areas

Comparison of % valuation differences of each appraisal company
TOOLKIT: MASS APPRAISAL ANALYSIS

Land - What information do we have?

<table>
<thead>
<tr>
<th>Timeline</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time of data</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Tasks</td>
<td>Pilot Exercise (36 appraisal companies)</td>
<td>Pilot Exercise II (35 appraisal companies)</td>
</tr>
<tr>
<td>Scope</td>
<td>Land (all kinds)</td>
<td>Land (all kinds)</td>
</tr>
<tr>
<td>Number of elements</td>
<td>144.224</td>
<td>161.775</td>
</tr>
<tr>
<td>Total value</td>
<td>80.048 Milliard€</td>
<td>77.120 Milliard€</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kind of land</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>Value</td>
<td>% value</td>
</tr>
<tr>
<td>VA7 Land: urban or developable</td>
<td>95.616</td>
<td>64.0 Milliard€</td>
</tr>
<tr>
<td>VA8 Land: Farms</td>
<td>26.771</td>
<td>7,0 Milliard€</td>
</tr>
<tr>
<td>VAX Land: Rural, rest</td>
<td>3.815</td>
<td>2,1 Milliard€</td>
</tr>
<tr>
<td>VA9 Land: others</td>
<td>18.022</td>
<td>6,2 Milliard€</td>
</tr>
<tr>
<td>TOTAL</td>
<td>144.224</td>
<td>80.0 Milliard€</td>
</tr>
</tbody>
</table>
PRICES DISPERSION: MARKET HETEROGENEITY

Multifamily houses' prices evolution: 2016/2015. Postal codes with more than 5 valuations

SOURCE: GACIC’S HOUSING APPRAISALS DATA BASE
MACROPRUDENTIAL
ANALYSES
MARKETS TRENDS
MORTGAGE LENDING
LTV
NPL PROVISIONS

SUPERVISION

MICROPRUDENTIAL
BANKS INSPECTIONS
BENCHMARKING
“The best structure will not guarantee results and performance. But the wrong structure is a guarantee of non-performance”

Peter Drucker
THANK YOU VERY MUCH