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

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Banco de España

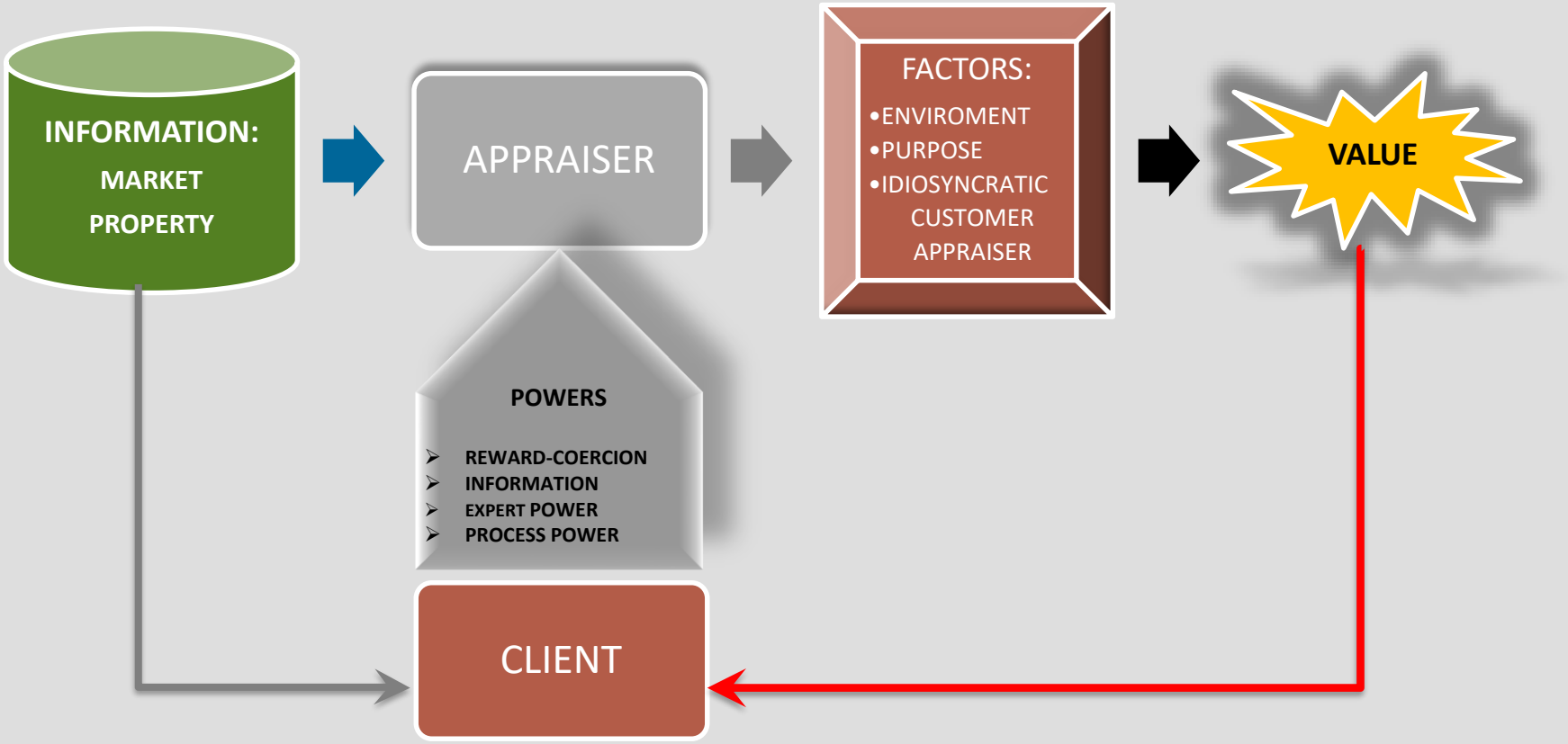
Sound collateral valuation and its impact on provisioning for NPLs

International conference
A comprehensive approach to NPL resolution – international experiences

WWW.WORLDBANK.ORG/FINSAC

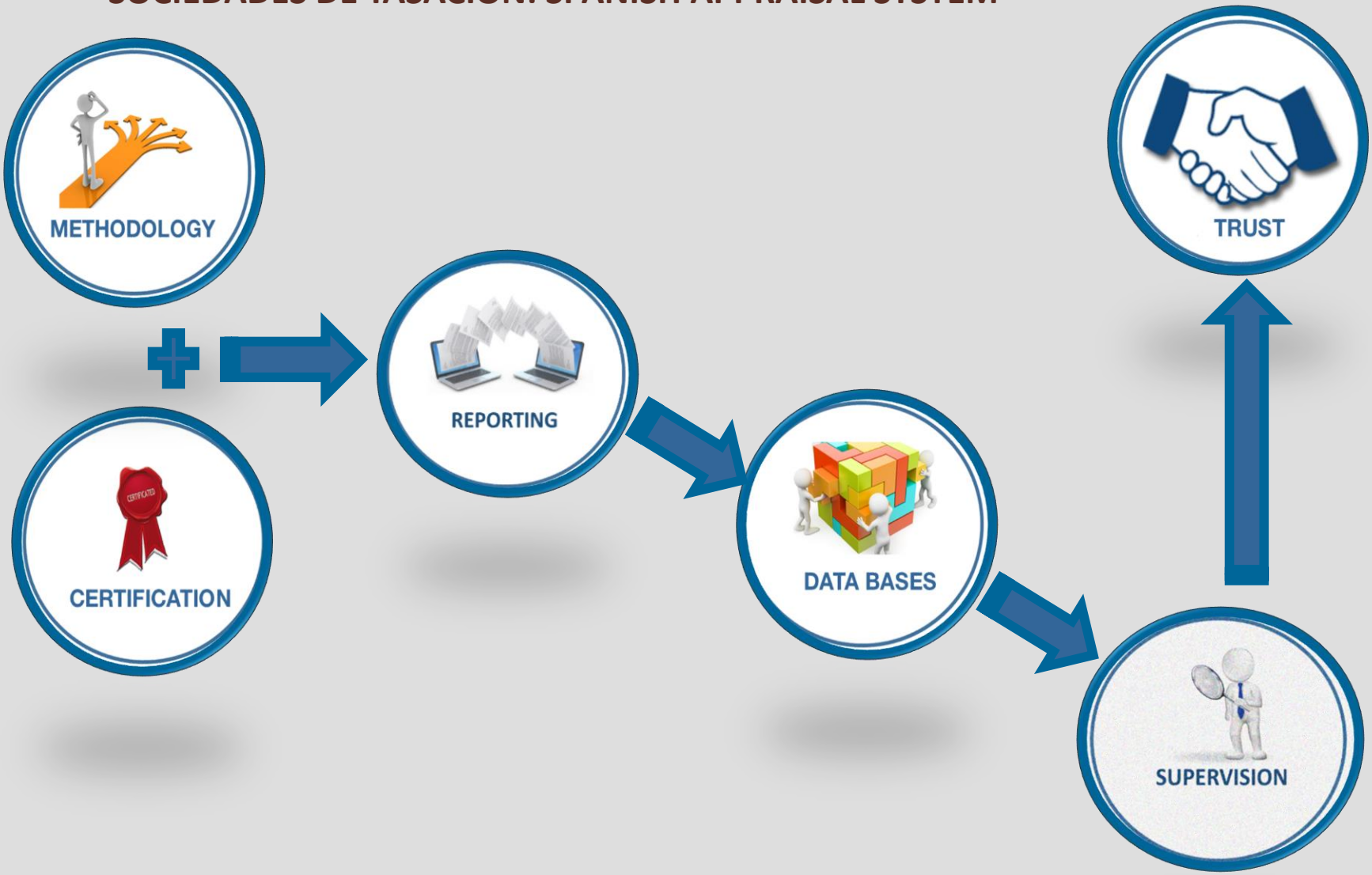
May 15-16, 2018
Vienna, Austria

THE INFLUENCE OF CLIENTS ON VALUATIONS



Levy & Stuck (2005)

SOCIEDADES DE TASACION: SPANISH APPRAISAL SYSTEM



ANEJO 9:
CIRCULAR 4/2017

ECO 805/2003

METHODOLOGY

NPL ECB GUIDE

AVM 2018
GUIDE BDE

TECHNICAL RESOURCES: DATA BASES

RD 775/1997

CERTIFICATION

BANKS

ECO 805/2003:
REPORT TEMPLATE

REPORTING

TECHNICAL
INSTRUCTIONS
REPORTING BDE:

- HOUSING
- LAND
- AVM

CIRCULAR 3/1998:
STATEMENTS

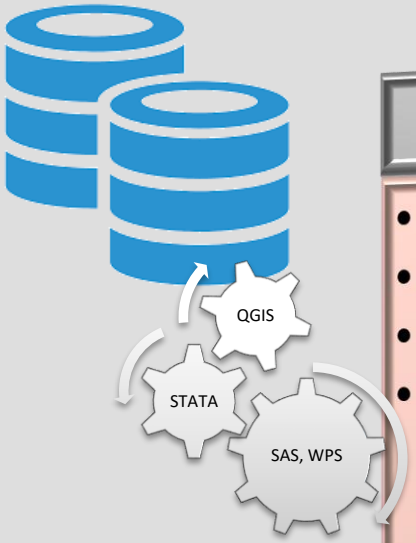
DATA BASES

HOUSING

LAND

Rest of properties

TOOLKIT



TOOLKIT

- **Housing Appraisals Mass Analysis (AMTh))**
- **Land Appraisals Mass Analysis (AMTl)**
- ***Land Risk Matrix (MRS)***
- **AVMS (Automated Valuation Models):**

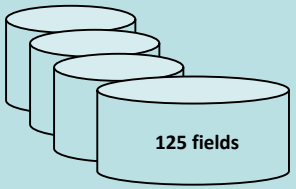
  Mass Analysis

  AVM Implemention Guide (Appraisal companies & Annex 9)
- **Risk Indicators**

  Appraisal value/Registered Price

TOOLKIT: MASS APPRAISAL ANALYSIS

Residential - What information do we have?



Residential Appraisal Database

Timeline	2014	2015	2016	2017	2018
Time of data	2013	2014	2015	2016	2017
Tasks	Pilot Exercise (8 appraisal companies)	Pilot Exercise II (38 appraisal companies)	Supervisory exercise (35 appraisal companies)	Supervisory exercise (36 appraisal companies)	Supervisory exercise (35 appraisal companies)
Scope	Residential (houses)				
Number of elements (individuals)	345.574	874.645	728.016	873.602	1.023.507
Total value	50,8 Milliard€	133.2 Milliard€	110.6 Milliard€	130.5 Milliard€	162.8 Milliard€
Number of elements (AVMs)	-	2.016.835	4.084.065	4.579.893	1.573.683
Total value	-	324.0 Milliard€	418.9 Milliard€	713.1 Milliard€	197.7 Milliard€

Milliard = Billion

Qualitative information:

- **AVM Model Data Sheet: characteristics, methodology, etc.**
- **AVM Questionnaire sheet: performance and characteristics for each portfolio and entity.**

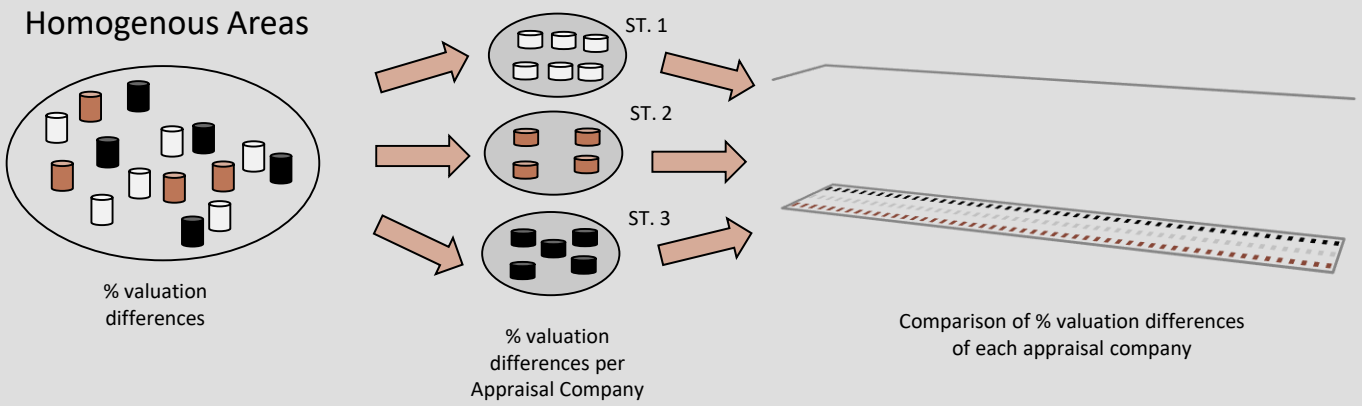
TOOLKIT: MASS APPRAISAL ANALYSIS

Residential - What do we do with this information?

PHASE I: Data Quality Review

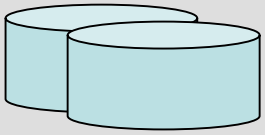
PHASE II: Valuation Process Review

PHASE III: Appraisals Comparison Statistical Analysis



TOOLKIT: MASS APPRAISAL ANALYSIS

Land - What information do we have?



Appraisal file and Land file (64 fields)

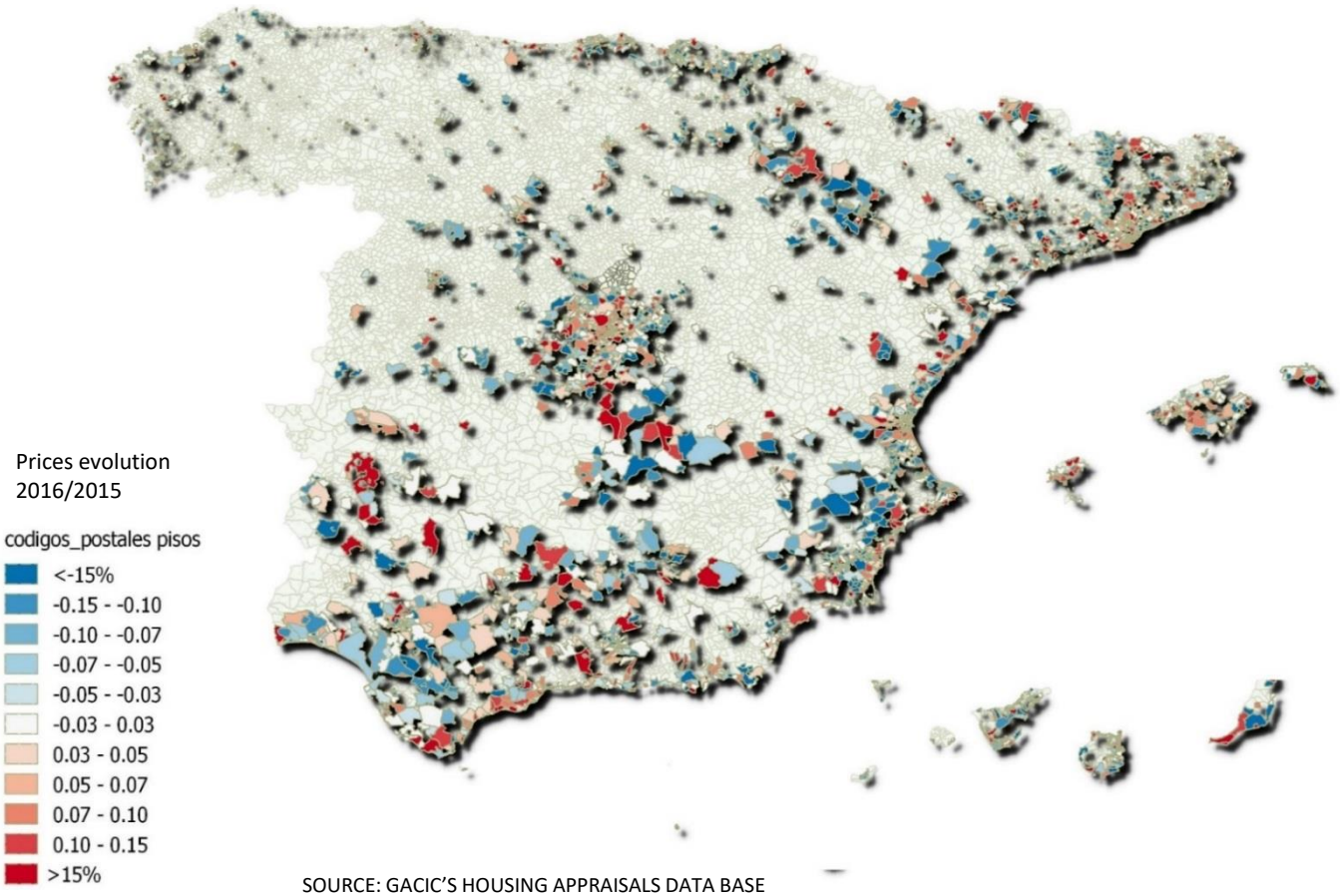
LAND INSTRUCTIONS

Timeline	2017	2018
Time of data	2016	2017
Tasks	Pilot Exercise (36 appraisal companies)	Pilot Exercise II (35 appraisal companies)
Scope	Land (all kinds)	Land (all kinds)
Number of elements	144.224	161.775
Total value	80.048 Milliard€	77.120 Milliard€

	2016			2017		
Kind of land	Number	Value	% value	Number	Value	% Value
VA7 Land: urban or developable	95.616	64.0 Milliard€	80,94%	100.063	61.5Milliard€	76,89%
VA8 Land: Farms	26.771	7,0 Milliard€	8,88%	35.751	8.2Milliard€	10,26%
VAX Land: Rural, rest	3.815	2,1 Milliard€	2,69%	2.824	0,7 Milliard€	0,82%
VA9 Land: others	18.022	6,2 Milliard€	7,50%	23.137	6.7 Milliard€	8,37%
TOTAL	144.224	80.0 Milliard€		161.775	77.1 Milliard€	

PRICES DISPERSION: MARKET HETEROGENEITY

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



SOURCE: GACIC'S HOUSING APPRAISALS DATA BASE

MACROPRUDENTIAL

MICROPRUDENTIAL

SUPERVISION

ANALYSES

- MARKETS TRENDS
- MORTGAGE LENDING
- LTV
- NPL PROVISIONS

BANKS INSPECTIONS

BENCHMARKING

FINANCIAL SYSTEM

INSTITUTIONS

INVESTORS

TRUST

PUBLIC OPINION

“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

BANCO DE ESPAÑA
Eurosistema

NOMBRE DEL DEPARTAMENTO