

# Examination Of Degree Of Satisfaction Of Lenders From Valuation Reports For Mortgage In Tanzania

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**Abstract:** The mortgage market in Tanzania has been fast growing with the entrance of more lenders from time to time evidenced by the increase of lenders from 3 by 2009 to 31 by 2017. Such growth called for more valuation services from the respective professional. The demand for valuation services by lenders came along with the increase of valuation companies which gave room for lenders to choose few among them to offer valuation services. Such practice implies competition among valuation companies towards the need of the clients specifically lenders in the eye of borrowers. The question was, does the valuation firms satisfy the thirsty of the lenders? This study sought to understand whether Valuers satisfy lenders when carrying out valuation for mortgage. A total of 47 sample who were officials and managers dealing with mortgages in lending institutions were reached through questionnaire in form of eSurvey and print outs and successful 33 responded making a response rate of 70%. The data were quantitatively analyzed by descriptive statistic techniques in Microsoft Excel. The results show that the majority of respondents were satisfied with valuation services offered by their respective valuation consultants. Statistically, 64% of respondents said that they were being satisfied with the utility level of (61-71) %. Also, 18% of respondents said that they were highly satisfied with utility level above 70% whereas the remaining 18% of respondents ranges from being partially satisfied to just satisfaction with utility level below 60%. Furthermore, 73% of those who asked for additional information from valuers apart from those contained in the reports said that they receive good response whereas the remaining 27% said that they receive a satisfying responses. The study recommend to the lender, the involvement of more valuers or experts in real estate to facilitate the proper interpretation of valuation reports and improve instructions of the valuation assignments. To valuers, the study call for further diligence in discerning which contents to be included in the valuation reports. There are information which may not be asked by lender during instruction but useful as judged by valuers, that ought to be added.

**Keywords:** Borrowers, Lenders, Mortgage, Reports, Satisfaction, Valuation & Valuers

## Introduction

Investment is an act of pouring out resources for a certain period of time with expectation of future gains (Havelmo, 1960). However, most investments are huge capital requiring projects. Thus, they requires a stable source of fund. Such huge lump sum is always not readily available to investors. Borrowing remains a major means to obtain funds to finance investment and such projects from lenders. Economic investment requires economic resources and money is a most powerful input. It is undeniable truth that lenders are very important stakeholders to investment. The business based operation between lenders and borrowers subject to mortgage is commonly known as mortgage market. Mortgage market in Tanzania is witnessing yearly growth from 3 lenders by 2009 to 31 lenders by 2017 (TMRC, 2018). In 2017 for example, three new lenders entered the mortgage market namely Letshego Bank (T) Limited, Yetu Microfinance Bank PLC and Mufindi Community Bank Ltd. This has been possible with the great role contributed by TMRC which was established in 2010. Another way of viewing the growth of mortgage market is the interest rates on mortgage offered by lenders to borrowers. The mortgage market in Tanzania is witnessing some development time to time with slight improvement up to 16% by December 2017. The same year experienced a 6% annual mortgage growth with a total lending (by banking sector for residential housing) of about TZS 344.84 billion, which is equivalent to US\$153.87 million, (TMRC, 2018). Lenders especially banks are innovating new products to borrowers. Following the entrance of new lenders in mortgage market taking place almost every year, the mortgage market increases competition among lenders for prospective borrowers. Much as lenders are ready to offer loans to applicants, there is the great need that the money borrowed shall be returned, thus, thoroughly analysis before committing loan is done. Applicants are analysed regarding their capacity to pay. Successful applicant is handled with money requested to facilitate the proposed activity, mostly business or residential property development whatsoever. In spite of series of assessments undergone by lenders to be

confident that a borrower will be in position to service the loan, the risk of not paying stay outstanding. The lender requires certainty that the asset being taken as a guarantee for a loan is of a substantial value to cover losses should the borrower default (EMF, 2009). Consequently, the collateral is the most common mechanism unavoidably used by lenders to secure the loan. The borrower's collateral imply that in case a borrower doesn't service the loan per agreement or there is a declaration of failure to service the loan, a lender can recover the loan based on the laws and procedures accepted within a given jurisdictions. In this respect, property valuation represents one of the major building blocks of the mortgage system as added by EMF. This is due to the fact that valuation opens the eyes of lenders to assess the collateral-ability of a given real property and give confidence in that property. The same federation (EMF) says that such confidence in the property value is one of the elements which make mortgage debt a low risk, inexpensive way of providing housing finance. Mortgage being a secured lending, there should be the way to recover the money given to the lender in case of default. There are various ways in which a lender can recover the borrowed money by the incident of default. The common and ordinary way has been foreclosure. However, to some extent, this has been viewed by various jurisdiction as an inappropriate way. Consequently, many countries have been abolishing the practice and come up with other ways to recovery. Tanzania is one of those countries prohibits foreclosure as per section 124 of the Land Act No. 4 of 1999. In steady, there are other ways permissible through which a lenders can recover borrowed money through collateral. Section 125 of the Land Act provides for remedies through power of lender on a collateral including power to sell, occupy and lease. There are many assets which are acceptable as a collateral depending on the nature, amount and use of loan among many other criteria subject to the lender's policy and guiding body of government. The current worldwide practice, real estate is a major collateral used to secure loans due to its stable nature. Being immobile, less value fragile and physically feasible are

among characteristic of real estates that attracts the lending institutions to trust it as collateral than any other means of securing the loan. In spite of such trust, lender must be aware of the value of the collateral in order to establish the loan to value ratio. Some assets are easily known of their values being transparent to the market while others like real properties are in a very imperfect market and their values are not readily available. Lenders, being uninformed of the real property market and specific property values, they necessarily involve valuers. As (Oluwunmi, et al., 2011) says, 'One of the fundamental issues to mortgage investment decisions all over the world is the need to provide information on the worth or value of collateral to be used'. Not only lenders benefit from valuation but also developer-investor as pointed out by the same authors that Valuation provides a substantial level of professional shielding to property developers from falling into wrong investment decisions. They fully rely on valuation reports for the sake of productive financial commitment. The role of valuation professionals to lenders becomes necessary to ascertain a value of a real property under consideration as a collateral to loan to be given to a borrower. Valuers in this regards are tasked to carryout valuation for mortgage purpose. Before time in history many lenders in some countries hired valuers to make assessments of the values properties in-house. From Australia, the researchers wrote that the use and reliance on valuations undertaken for mortgage lending process is paramount to a robust mortgage lending industry in Australia' (Australian Prudential Regulatory Authority, 2005). However, with increased awareness of borrowers to property related matters, lenders competition to potential borrowers, liberalization alongside the development of professionals to real property including valuers, there aroused the necessity of having independent valuers. To this day, it is advised and practiced that there must be independent valuers, not bound by either lender or borrower to provide independent opinion of value to lender. For this function, valuer receives instruction, carryout valuation assignment professionally and come out with the valuation report. Valuation report, in spite of being aimed at providing opinion of value to assist lenders' discernment over loan applicant, it contain many details. Those details presented in valuation reports, even though they may not be directly specified by client, they ought to be provided as valuers are complying with standards, legal and professional guidance. Nevertheless, some lenders upon their discretion with intention to facilitate property familiarity and collateral-ability, they request special information from valuers. One important thing upon receiving the report, it must be in position to facilitate the purpose for which it has been carried out. Then, the contents found in the valuation reports with experience from some countries like Nigeria are receiving various attention and usefulness to lenders. Of recent, professionals worldwide have realised the value in clients' perception over the quality of valuation report and making it a great topic fixed on need to ensure high valuation standards to best practices. This explains why the topic has been receiving a worldwide attention among professional bodies and researchers in the recent past (Colwell & Trefzger, 1992). Some contents are claimed to be unclear or unfamiliar to loan related departments. Some parts are of higher concern than other parts and in some instances, lenders have some information they wish to obtain from the reports but they don't get any. This take the general

judgement of the report by client as unsatisfactory since what they demand in clarity, doesn't appear as expected. Some studies came out with a suggestions that valuers should update the contents of the valuation reports. In Nigeria for example, (Oluwunmi & Akinjare, 2013) suggested that there is need for the Nigerian Institution of Estate Surveyors and Valuers to update their valuation reporting standard by including in their reports, how some of the figures given by the estate surveyors are arrived at e.g. the valuation figure. Also, they called for the detailed instructions and improved communication between clients and valuers concerning each other's needs so that these needs can be met. Much as clients need more information, valuers are to their advice required to consider how it might be provided, communicated improved. Regular interaction and closer collaboration between the clients and the estate surveyors was proposed so as to meet clients' needs and improve practice. Finally, estate surveyors and valuers must not only provide the service expected of them, but they must be able to establish what the client requires/needs and also make efforts to satisfy such needs and expectation. These are taking place whereas valuation firms are improving their reporting styles and contents time up to time to comply with standards which are subject to revisions and to some extent the daily innovations to cater the market dynamicity which is another factor for improvement of contents in valuation reports. All these takes place to facilitate the purpose as set by a client. Even if something good to standard and legal view takes place, if the thirsty of the client isn't fulfilled, there is a problem.

### **Problem Statement**

It is a compulsory requirement that valuation reports including those done for mortgage purpose for lenders be clear to users. The clarity is expected in terms of the degree it facilitate the lenders' operation through familiarizing lender with the property and its value. Like in any other valuation assignments, valuers use professional skill and comply with all professional standards and legal provisions to approach the assignment per instructions. In addition to that, valuers may include information they consider useful to lenders and this may be specific information for a given case property. The experience from other countries show that lenders are highly satisfied by the valuation exercise and reporting by valuers while others are just satisfied by the same. Some lenders treated some areas in the report as important to others while others demanded new contents in the reports. Since lending practice and interaction among stakeholders with related collateralization strategies are more or less alike globally, the examination of feelings of practitioners from lending institutions in Tanzania becomes genuine. Thus, to obtain an understanding about how lenders in Tanzania perceives the valuation reports from valuers with reference to the level of satisfaction obtained from them.

### **Research objective**

#### **Main objective**

To examine the degree of satisfaction of lenders from valuation reports and explore the possible preferred modification on contents.

### Specific Objectives

To examine the extent to which lenders are satisfied by the contents provided by valuers in their valuation reports To state whether there are any new modifications preferred by lenders in the valuation reports.

### Research questions

Are the current contents of Valuations for mortgage provided by valuers satisfy the needs of client, lenders? Are there any missing contents or proposed contents in need to be reported?

### Literature review

#### Valuation Exercise and Reporting for Mortgage

Valuation reporting is as important as valuation assignment itself since it is the evidence of carrying out the assignment and only dependable document to make decision. Property market is growing continuously with sophistication in the property investment worldwide. This makes it necessary to explore the adequacy or otherwise of valuation reports which serve as an important input to investors' investment decision making (Ajayi, et al., 2011). To stress on the value of the report, it was said that the better the information set in a valuation report, the better the valuation (Aluko, 2000). The valuation report and its quality is regarded as the evaluation base of the assignment itself. Contrary to the former time, clients are adopting to the changing business nature in investment and mortgages. They look forward to face challenges related to the business operations, consequently, they call for rigorous and even a more complex reporting as influenced by the valuation market worldwide being highly competitive. Also, investors are becoming more informed and aware with valuation standards, practice and most importantly valuation reporting (Ogunba & Ajayi, 2007) as a result, they are more concerned. Reporting in valuation professional is regarded as a means of communication between and among the concerned parties. It is a way of conveying the information to the client who commissioned the assignment. Then, the same have to meet the needs of the client as well as keep up with the standards for valuation in the profession (Aluko, 2000). In Malaysia, (Juanil, et al., 2008) carried out a study on the quality of valuation reports based on satisfaction, valuation and reporting procedures and other issues seemed relevant. It was observed that the valuation report is a key element in property investment decision making for institutional investors. The same was cemented by Oluwunmi & Akinjare, (2013) who added that the valuation report, if prepared well, it is expected to provide a professional shielding to property developers against the risks the like decisions unwanted. The study from United States by Shlaes provides a sign that some valuers do not reach the satisfactions of the clients in spite of the importance of the report itself. It was asserted that the clients hardly get what they seriously want and need from the appraisers. The author went further specifying that clients need the truth, packaged in a convenient form. They want enough content to evaluate the appraiser's findings, but not so much as to waste time and money as they are busy people (Shlaes, 1993). The like observation was made in the same year that sometimes an appraiser may not necessarily be meeting the needs of the client but rather focuses on meeting a long list of requirements and rules within a defined

format (Knitter, 1993). In other words, having a longlist of the contents in the report may not necessarily capture the expectation and satisfaction of the lender clients who commissioned the report. Satisfaction to the clients is very crucial and when it isn't fulfilled, it cannot let the appraiser without effect. It was submitted by (Aluko, 2007) that when clients were not satisfied with the quality of service received, they might tend to look elsewhere to satisfy their demands. This automatically affects the appraisers businesswise and they ought to adjust to meet clients' needs and possible provision.

#### Degree of satisfaction

There have been some studies from various parts of the world on this topic. To begin, there was a survey which was intended to provide useful insights on the attitudes and perceptions of the lending community about appraisal quality. The authors found that the residential appraisers were providing high-quality appraisal reports in a consistent manner (Dotzour & Compte, 1993). Further result from the study by Ajayi, et al (2011), revealed the 62% of satisfaction by the banks (clients) from the overall content of the valuation report. Moreover, some improvements were suggested including the following: details of tenancies which seldom appear, details on specific comparable, state of letting market, general information on comparable, valuation calculations and uncertainty in valuation figures. Not every part of the report appears to clients but some areas provide different satisfactions than others. The study by Ajayi, et al (2011), observed that the report contents which provided satisfaction to banks were specifically: specific location of the property 5%; location of property 5%; methodology 5%; property physical features 4%; property suitability for lending purposes 4% and specific suitability of property for a loan at proposed amount (4%). Some mortgage market reported the inadequacy in reporting and un-satisfaction of client-lenders. The study from United Kingdoms carried out by Crosby, et al., (1995) to gather the view of the clients over the information content of property investment valuation report. The researchers found inadequate information on market trend, tenant strength and valuation methodology. The findings further showed that though valuers were generally well regarded by lenders' clients, the clients' main cause of concern was the quality of the report. Newell (1995) carried out the study in Australia on the same issue and found that ninety-six percent (96%) of the users of valuation reports claimed that the reports were adequate for their purpose. Eighty-five percent (85%) of the respondent felt that valuation reports contained sufficient analytical details, while ninety-six percent (96%) considered valuers as competent in their professional activities. The study was not without showing deficit, there was the perceived weaknesses which was the failure to understand the complexities and market position of a particular project and inadequate market analysis (Newell, 1995). Considering that the results by Crosby, et al (1997) suggested that UK clients were generally satisfied with valuation reports, a common criticism according to the survey's findings was that valuers failed to provide detailed information on the factual elements within a report than they did on the valuation methodology and the state of the market (Crosby, et al., 1997). A later study including a survey of valuers and lenders in the UK showed that there was a general perception that valuers provided too little information

in valuation reports on the location of the property at national and regional context. Moreover, information on planning situation and state of property market was said to have a little attention by appraiser. The study went further detailing that the lack of information on the space market was more noticeable than for the asset. That was with sixty-nine percent (69%) of respondents indicating that too little information was provided. More additional information was suggested especially regarding the information on the state of the wider investment market opportunities, market trends, tenants strength and valuation methodology (Crosby, et al., 1998). The regulations had impacts on the valuation practice and reporting quality. Some researchers found that those who expected the best appraisers to struggle in the market by sticking on regulatory standards may be disappointed as the market player needed minimum standards. This is because users of appraisal services could not discern unacceptable quality from acceptable quality (Colwell & Trefzger, 1992). A study focused on three groups of people that are involved in the preparation and use of valuation reports; commercial lenders, commercial valuers and residential valuers. The findings showed the satisfaction of lenders by valuation reports, although the same was lesser on analysis and interpretation as compared with overall quality and the perceived accuracy of the valuation figure (Crosby, et al., 2004). In United Kingdoms, Crosby et al (1995) did a survey to examine the view of clients on the information content of property investment valuation report. The results revealed the inadequacy of information on market trend, the strength of tenant and valuation methodology. Addition information on the general state of the market at wider level was expected by lenders. Studies in Nigeria done by Aluko and Oluwunmi in sequent years had important observations as follows: when examining clients' perception of the quality of property valuation reports in Lagos Metropolis, Oluwunmi found that seventy-eight percent (78%) valuers' reports in comparison with the standard expected shows that valuers' reports were meeting the standard. Sixty-two percent (62%) of the banks are at least satisfied with the overall content of their valuation reports (Oluwunmi, 2008). The case of the study by Aluko (2007), examined the mortgage valuation process in Lagos metropolis with the intention of discovering whether the contents of mortgage valuation report met the needs of client. Furthermore, the reports were being tested to the standards set for such valuation in the profession. By comparing the view of estate surveyors and lending institutions with respect to the information content of mortgage valuation reports, the author's findings revealed that mortgage valuation reports presented by valuers were not currently meeting the needs and demands of lending institutions (Aluko, 2007). The studies by Newell and Barrett (1990) and Newell (1995) in Australia indicated that ninety-six percent (96%) of the users of valuation reports claimed that the reports were adequate for their purpose. Eighty-five percent (85%) of the respondent felt that valuation reports contained sufficient analytical details, while ninety-six percent (96%) considered valuers as competent in their professional activities (Newell & Barrett, 1990). In the study by Oluwunmi and Akinjare, (2013), banks were asked if they had asked for additional information from valuers after submission. Eight (8), i.e. 62% of the banks confirmed that they had done so, however, it was not in all the cases that they were provided with all the information requested. Three (3) representing

23% said their requests were bluntly turned down by valuers with an explanation that the information required by them were not included because they are not relevant. The remaining two (2, 15%) confirmed that the valuers' reports have always been meeting their needs hence they do not have any reason to request for any additional information in their report. Concerning what should be modified in the valuation report, the same study added that the respondents required more information on the following aspects:

- Level of demand for property (3%);
- Degree of uncertainty of valuation figures (2%); and
- Setting out of valuation calculations (2%).

Moreover, it was noted that the practitioners gave little or no information within the reports on these aspects. Again, majority of the banks paid no attention to the provision of general information on comparables (1%), the condition of real property market (1%), specificity of comparables (1%) and details on tenancy (1%). Looking in Newell (1999), when examining the clients' perceptions of the quality of valuation report in Australia, concluded that there was the need for detailed instruction to valuers. Also, there was a greater emphasis on market dynamics/future performance in valuation reports (Newell, 1999).

### What should be contained in the report?

#### From VS 6.1 Minimum content of valuation reports

The report must clearly and accurately set out the conclusions of the valuation in a manner that is not ambiguous or misleading, and does not create a false impression. It must also deal with all the matters agreed between the client and the valuer in the terms of engagement and include the following minimum information, except where the report is to be provided in a prescribed form from a client:

- (a) Identification of the client and any other intended users;
- (b) The purpose of the valuation;
- (c) The subject of the valuation;
- (d) The interest to be valued;
- (e) The type of asset or liability and how it is used, or classified, by the client;
- (f) The basis, or bases, of value;
- (g) The valuation date;
- (h) Disclosing any material engagement or disengagement;
- (i) The identity of the valuer responsible for the valuation and, if required, a statement of the status of the valuer;
- (j) The currency that has been adopted, where appropriate;
- (k) Any assumptions, special assumptions, reservations, special instructions or departures;
- (l) The extent of the valuer's investigations;
- (m) The nature and source of information relied on by the valuer;
- (n) Any consent to, or restrictions on, publication;
- (o) Any limits or exclusion of liability to parties other than the client;
- (p) Confirmation that the valuation accords with these standards and that it also complies with the IVS, where appropriate;
- (q) A statement of the valuation approach and reasoning;
- (r) A statement that the valuer has the knowledge, skills and understanding to undertake the valuation competently;
- (s) The opinions of value in figures and words;
- (t) Signature and date of the report.

## The suggestions by other researchers

According to Shlaes (1993) report must be:

- a) Current (written in real time with up-to-the-minute financial and market information rather than with old, obsolete data and methodology); complete (containing in-depth information enough to express the property in satisfaction of appraiser's case);
- b) Correct (reporting facts accurately and properly explaining all aspects related to the purpose);
- c) Cogent (logically enough with clarity to convincingly take a reader along all steps of the argument to the correct conclusion);
- d) Consistent (checking all internal discrepancies which could confuse or mislead a reader);
- e) Convenient (being easy for a reader to find the important elements); and
- f) Concise (wasting no words or money) (Shlaes, 1993).

The authors in Nigeria however suggested that valuation reports should be extended to include the following additional elements: a clear description of the availability of certain sustainability-related property characteristics and attributes; a statement of the opinion of valuer on the possible benefits and impacts of those attributes adding to their possible risks on property value (Ajayi, et al., 2011). Other researchers from Nigeria recommended that the following three (3) additional elements should be included in valuation: (i) a clear description of the availability of certain sustainability-related property characteristics and attributes; (ii) a statement of the valuer's opinion about the benefits of these characteristics and attributes; and (iii) a statement of the valuer's opinion about the impact of these benefits and/or risks on property value (Oluwunmi & Akinjare, 2013). In Nigeria, when clients were asked to identify ways of improving the quality of valuation reports, with a view of increasing their level of satisfaction, the analysis showed that the quality of valuation reports can be enhanced when:

- a) there is monitoring of valuation reports by the professional body (4%);
- b) the valuation techniques are improvement (4%);
- c) there is a standardized valuation guideline (4%);
- d) valuation standards are monitored by a governmental regulatory body (4%); and
- e) the current format of valuation report is changed (3%) (Ajayi, et al., 2011).

The highest perceived weaknesses over these periods were failure to understand the complexities and market position of a particular project and inadequate market analysis as posed by the same authors.

## Research Gap

The reviewed literature shows that several studies have looked into the degree of satisfaction obtained by lenders from valuation reports more from the developed world. Most of those insisted on the need to enhance valuation reporting. This called for the study on the same matter in other countries, especially the developing world. However, there are relevant studies from developing world like Nigeria by Aluko (2000) and (Oluwunmi & Akinjare, 2013) among others over the same topic. Again, Aluko (2007), examined mortgage valuation process including sources of valuation

instructions, information content of mortgage valuation report, bases and methods being adopted and their implication on lending decisions and valuation profession in Lagos metropolis. Both studies emphasized that valuation report must meet the needs of client as well as upholding the standards set, for such valuation, by the professional. Although those researchers gave picture over the interaction between valuers and lenders in the developing world, they still differs in methodologies adopted and results were not the same. In Tanzania, little or nothing is known about the satisfaction obtained by valuation clients from valuation services and subsequent reports. There is no available relevant studies in the property market of Tanzanian context over the topic concerned. Consequently, calling for the need carry out the study.

## Research methodology

Quantitative approach to research was used to collect and analyse data for this study. The survey was conducted through questionnaire which was developed and distributed electronically through eSurvey complimented by some print outs on demand by some respondents. To attain that, the link with a questionnaire was distributed to current and former officials and managers in lending institutions. The targeted groups were the branch managers for banks and officials in credit departments (for banks and non-bank lending institutions) who were responsible for affairs related with mortgage. They are known by various names from one institution to another such as relationship officers, credit officers and loan officers among other. A researcher involved other valuers in mortgage practice from various valuation companies in Dar es Salaam to help in identifying targeted respondents and communicate the survey. A total of 47 respondents from various lending institutions were identified and the link was sent to them via emails, whatsapp application and short message services (sms). Also, some respondents were helpful to identify other respondents. Further contacts was made to ensure the understanding and insist on responding. A total of 33 out the contacted responded making a response rate of 70% from which the conclusion have been reasonably drawn. The data were analysed quantitatively by descriptive statistic techniques in an inbuilt computer analysis tool known as Microsoft Excel. To make the findings easily understood, various techniques of presenting data have been used and such include texts and tables.

## Presentation and Discussion of Findings

### Tanzania Mortgage Market

There are many loan facilitating institutions in Tanzania as in many other countries. There are individual person lending to another person, microfinances, banks and specialized lenders among others. However, most of those requires mortgage security and the security varies from physical collaterals (like real property) to employer's security. Banks are major stakeholders in mortgaging business and are the same who requires valuations to be carried out by independent consultants. Even among those requiring collaterals, it is not for all loan applications with subsequent collateral call for valuation. Currently, for example, most banks requires the applicant to involve valuation for the collateral only when the load requested is above TZS. 40

million and others go even to minimum of TZS. 50 million. The loan application above these minimum amounts, their collaterals are only assessed by the bank officers (mostly in credit departments) and with all other procedures, they provide the loan. The nature of Mortgage in Tanzania appears most likely among financial institutions. Client (mortgagor) apply for a loan and specify collateral. Like all other parts of the world, real properties are the most trusted collateral and therefore commonly used. The bank reveal the shortlisted valuation firms to the mortgagor who choose one among. The bank facilitates communication between valuer and mortgagor and having specified the valuer (commonly a valuation firm), the bank send the instructions to the valuer. Then, the valuer carries out the valuation exercise and accomplish all approval procedures per the Tanzanian standard before submitting the report to the bank. The exercise is done subject to the service contract between the bank and the shortlisted valuation firms. Nevertheless, valuer abides by the prevailing local and international standards in actual exercise.

### **Characteristics of the Respondents and Mortgaging Institutions**

#### **Centrality of banking sector**

The banking system in Tanzania, like all other business are centred in Dar es Salaam. This indicates that most business initiatives are likely to ignite from this business city and are likely be centred at the same. Most banks have their headquarters in Dar es Salaam. Mortgage business is also highly pronounced in Dar es Salaam. Therefore the study in the related business can hardly be done successful by ignoring centralization in this city. This has been proved by the results of the survey whereby 21 respondents operate in Dar es Salaam and the remaining 12 came from all other region.

#### **Mortgage based lending institutions**

As earlier said, so was the situation. Most lending institutions which requires valuation for collateral are at large banks. The survey revealed that 82% of the respondents are from banks whereby the remaining 18% of the respondents where from the microfinance. It is most likely that these microfinances are those in a transformation processes to a banking status.

#### **Experience of mortgage lending**

Mortgage market in Tanzania witnessed rapid development from year 2009 where there has been fast entrance on new lenders from time to time. As by Tanzania Mortgage Market Company (TMRC) and Bank Of Tanzania (BOT), there were 3 lenders in the market by 2009, the number has increased from then to 31 lenders by 2018. This was spearheaded by the Mortgage Financing (Special Provision) Act enacted in 2008 and the establishment of TMRC to financially facilitate lenders. Consequently, most lenders are said to have been in mortgage business especially with the need of valuation report for period between five and ten years and such group composed 55% of respondents. The remaining 45% of the respondents have been in the same mortgage practice above 10 years.

#### **Experience of the respondents in mortgage activities**

Most respondents had been in positions related with mortgage based lending in their institutions for more than five years and this group composed 45% of respondents. 36% of respondents had experience between 1- 3 years whereas the remaining 18% was for those with experience of 3-6 years. In spite of considering real property as the most trusted collateral, most management of financial institutions doesn't seem to make the need of real estate professionals in the credit department necessary. 64% of respondents who are likely to be in the department dealing with valuation reports do not possess real estate skills or have no any background with real estate matters. The remaining 36% have the background with real estate professional of which to most institutions was never been the prerequisite for being in those position rather by default. The survey have involved both officials in credit department and people at managerial positions in those institutions. Based on the nature of information sought, it was appropriate to involve both managers and officials consequently, 55% of respondents were officials and 45% were managers. This adds confidence that the results are most likely to be the general conclusion of the institutions if approached as a whole. Since, whereas officials deal with day by day interaction with valuers, managers are highly involved in decision making for their institution.

#### **Instructions to Valuers and Valuation Exercise**

##### **Handling Assignments of Valuation for Mortgage**

Almost all valuations are carried out by independent valuation consultants who are out sourced. 91% of respondents agreed that they outsource independent valuation firms to carry out the valuation of the properties of their clients for mortgage. The remaining 9% of respondents says that they use in-house system to carryout valuation assignment. This is likely to be micro financing institutions of which by the amount of maximum mortgage they are ready to offer, they don't necessarily demand valuation report. Alternatively, institution officers visit the property and make assessment over collateral-ability strength.

##### **Instructing valuation for mortgage**

The relationship between valuation consultants (firms) and lenders in Tanzania in valuation for mortgage is guided by the service agreement between the firms and lenders. Lenders, say bank, advertises for expression of interest or call for tendering of valuation assignment for mortgage for their clients. This is done by individual lender at its own time. Then, a number of firms which qualifies among many, are shortlisted. In other words, the requirements for valuation activities are specified in advertisement when calling for valuation firms to express themselves for the assignment. However, such requirements may not be enough for all cases since the same may be too general to accommodate specific characteristics of each and every applicant. The study revealed that lenders adopt various ways at various time to specify instructions to valuers towards handling valuation assignments. Such included specific instruction per each assignment and general Instruction to valuation firms for all assignments which was supported by 36% of respondents each. Giving instructions during the Service contracting with the firm was the least scoring 27% of all responses.

### Specifying Contents in Valuation reports

It seems common that valuers specify exactly what should be in valuation report apart from main theme. In other words, the instruction given to valuers by many lenders does not necessarily detail all contents to be in the report apart from the main purpose, value of the property. Then, it is up to the valuer to make a discernment in the eye of lenders about what information can be added to improve the lenders decisions over a given property. To note, it was revealed that it is not a prerequisite for officials in credit departments dealing with mortgage to possess background in real estate, this may be a reason for un-specificity in instructions. Consequently, 64% of respondents said that they don't specify all contents in valuation report whereas only 36% of the respondents said that they do so.

### Service agreements with valuation firms

Much as lenders outsource consultancy of valuation firms for valuation of their clients' property for mortgage and the same is carried out under the service agreements, they don't last forever. There are many valuation companies in industry with different experiences and efficiency. These companies compete in service provisions and broaden the room of choice to lenders and subsequent, their respective clients. Therefore, service agreements have to be reviewed in a given time frame where the existing firms are evaluated and new ones can get in. on this matter, 60% of respondents said that their institutions review service agreement yearly while the remaining 40% does the same at other period above one year.

### Presence of real estate professional

Much as the background to real estate professional is not a prerequisite to be in positions or departments dealing with mortgage requiring valuation in lending institutions, few of the same have any. From the survey, 55% of respondents said that their credit departments, primarily at the branch level there are no real estate professional and the remaining 45% have at least one professional in real estate. However, possession of such skills by the officials may not be the prerequisite to be at their respective position. As the result, they may not be in position to influence decision making to affect their interactions with their valuers. However, most lenders have begun employing valuers or real estate investment analysts but most of these are at the general management from headquarters.

### General Satisfaction

#### Calling for Valuation assignments

As the matter of fact, getting borrowers is currently a great business Tanzania mortgage market. Lenders are innovating various loan products to attract prospective borrowers. It is a policy to some lenders that marketing officers visits possible prospective borrowers to market their loan products. Some of these present loan products to various gatherings to attract the mass to borrow. It should be kept in mind that not all loans and their respective collaterals requires mortgage. This mean that not all lending institutions often get the clients in need of valuation services. From the survey, 55% of the respondents get at least a client in need of mortgage monthly whereas only 27% get a client weekly and the remaining 18% get a client in need of such service yearly. In addition to that,

the same business are not evenly distributed geographically. Dar es Salaam, being a business and highly developed city than any other place in the country, does better in mortgage than all other regions.

### Level of satisfaction Property valuation and reporting for mortgage

The results show that most lenders are satisfied by valuation services offered by respective consultants (firms). From the survey, 21 respondents who are equivalent to 64% of the responded said that they were satisfied by (61-71)% (as a utility level) of the valuation reports. 9% of the respondents says that they are just satisfied (40-50)% and the result is the same to those who says that they are partial satisfied (51 – 60)%. On the other hand, only 18% of the respondents said that they are highly satisfied valuation and reporting of properties for mortgage.

**Figure: Level of Satisfaction**

Level of Satisfaction	Response	Ratio of Response
Very Good	0	0%
Good	24	73%
Satisfactory	9	27%
Bad	0	0%
Very Bad	0	0%
<b>Total</b>	<b>33</b>	<b>100%</b>

Position of the Quality of the report in evaluation of performance of valuation firm In valuation profession, reporting is a very important aspect as all other stages in carrying out the assignment. Without reporting, there is no output to the client which could evidence that the exercise actually took place. The same applies to wrong reporting which disqualifies the whole exercise in spite of what efforts might have been at the prior exercise. As found in this survey and the practice, there is a continuous and time to time reviews of performance of valuation firms by lenders. The results of such review is to un-list (remove out of list of) firms which provide valuation services for its clients. When lenders were asked whether reporting for valuation for mortgage is one of the criteria used in evaluation of valuation firm, 100% said yes. But when looking at the contribution of valuation reporting during service performance evaluation, 55% of respondents said that it contributes above 50%. Then, 27% said that the report contributes in around 31% to 50% whereas the remaining 18% rank below 30% of contribution.

**Figure: Contribution of Report Quality in Assessment of performance of valuation firms**

Level of Contribution	Responses	Ratio of Response
Less than 10%	3	9%
11%-30%	3	9%
31%-50%	9	27%
Above 50%	18	55%
<b>Total</b>	<b>33</b>	<b>100%</b>

## Report and Contents

### Demanding Additional Information from Valuers

To affirm the competence of valuers in responding to additional information requested by the lending institution, respondents were asked whether they call for additional information. The survey revealed that 82% of respondents agreed that they happen to demand additional information from valuer while only 18% said they were not used to call additional information apart from that provided in the report. This wasn't enough before seeking to know how they rank the quality of the response from valuers if they demand explanation or any additional information. Most respondents, about 73% said the response was good. The remaining 27% said that the responses from valuers was satisfactory. It can be concluded that valuers' competence and presentation of valuation report is satisfactory.

**Figure: Quality of Response**

Satisfaction Level	Responses	Response Level
Not Satisfied (< 39%)	0	0%
Just Satisfied (40% - 50%)	3	9%
Partial Satisfied (51% - 60%)	3	9%
Satisfied (61% - 70%)	21	64%
Highly Satisfied (> 70%)	6	18%
<b>Total</b>	<b>33</b>	<b>100%</b>

### Modifications proposed to be added in the report

Respondents were asked to propose some contents which they consider important but missing in the current reports they receive from their valuation service providers. Though few issue has been mentioned, they indicate that they are possibly not addressed in the reports by some valuers. The mentioned includes property marketability, location site plan and imagery appearance, national and local economic situation, ministry's locational prices and geographical positioning. These seems useful information if not provided in the valuation report. In addition to that, the respondent have observed the variation in content and quality of the reports from one consultancy to another. In this study, 55% of respondents said that there is a difference in contents and quality between reports of one company to another whereas 45% said that they had not noted the substantial difference in the same.

## Conclusion and Recommendation

### Conclusion

#### Lending Institutions

The way lending institutions administer the whole process of valuation exercises and subsequent reporting is satisfactory. The involvement of independent valuers who are more than one company to create a sense of market orientation. The companies compete on tendering bases, they are assessed altogether by a respective institutions from which the best presented among many are shortlisted to carryout valuation for the client applicants for loans. So also, clients are given the list of shortlisted companies by their lenders from which

the one is free to choose the company of their preference. This give room to the clients to choose among listed valuers to carry out the assignments. Much as the costs associated with the same valuation assignment rests in hand of the borrower, the one analyse among valuation consultancies shortlisted and can have some relieve. This put the valuation assignment on market from which valuers are automatically forced to work and charge competitively. However, professional standard are kept paramount.

### Valuation Consultancy

Valuation firms and valuers within them as portrayed by the study, they are doing well since they satisfy the need of lenders. However, there is the chance that some firms may be delivering below what could possibly be provided. This may be attributed by the fact that some lending institutions have no professional in real estate in departments dealing with mortgage and collaterals in need of valuation consultation. As the results there might be contents which are important to be included in the reports but they are not made necessary by lenders during instructions and valuers remain silence. As the matter of fact, the standards by International Valuation Standards provides many possibilities to report valuation of property for mortgage. Some of those may not be compulsory depending on the local situation and practice while others are unavoidably compulsory regardless the situation. Valuers can be even more diligent to add more useful inputs in the given reports.

## Recommendations

### Lenders

Although it may not be the world wide practice among lenders, the inclusion of professional real estate in departments dealing with mortgage is very important. Some information provided therein are professional based and may require proper interpretation when assessing the collateral-ability of the property. Some lenders concentrate on the property value and often not the market value but force sale value. In some cases, the different between the two values are not clear to some officials in lending departments. In this situation, there is the chance that the assessment of the collateral of the applicant for loan looking at valuation report by some lending institution may not be just. That is the case if all other information in the report are ignored and only value be market value or even worse, a false sale value is considered. The assessment, evaluation, qualification and disqualification of a valuation firm to or from among the shortlisted valuation service provider require an attention of its own. The expectation is that the assessment could be better if there could be the professional in real estate. It is asserted that the advice from a person in practice with certain professional even with experience matter in such discernment.

### Valuers

In spite of the fact that most lenders are satisfied by valuation services from valuers, there is a room for improvements. Valuation, like many other professionals, is subject to dynamicity. There are day by day improvements technologically and valuation techniques and the same have to be reflected in day by day methodologies and reporting as it deemed fit. It would be more appropriate that valuers

become innovative and accommodate more useful contents. There are some lenders who have claimed for the need of more contents which are very important. The study revealed the variation of the content and quality of the valuation report for mortgage. These matters mean that there is what may be referred to as the missing content as from some valuers. In other words, there are important contents included in the report by one company and excluded by another company while regarded as important by lender. Consequently, it is evident that the like content should be part and parcel of their report.

### Areas for Further Study

At least one area is very important to look in depth and one more technique to approach the like study are recommended as follow:

The study to whether the contents in the valuation reports are understood and are clear to officials in lending institutions detailing the view at each part of the report.

The reports for valuation for mortgage vary in size by contents. But it is presumed that everything there in is not only fit but also important for the purpose given. There is the signals that the whole reports are not read or else are not understood as observed from the interactions between valuers and officials at lending institutions. In other words, not all part of the reports are read and even when they are read, not all of them are understood. In spite of some rigorously looking methodologies of some properties, lending institution lacks not only valuers but also any personnel with background to real estate professional and this is likely to stress on doubt whether all parts are well understood. This adds the possibility that instead of huge bunch of contents in the valuation report, the same may not be clear enough to the reader, lender. This part need and in-depth look and advice to the lending institution and possibly with valuers to ensure that the clients for whom the reports are solicited are properly evaluated especially of their collaterals.

### Alternative Research Methodologically

There can be an in-depth study of the general and analytical view of the major lenders about service received from the valuation consultancy by their listed companies. This should be done by getting the analytical judgement from the lenders' top management (from the highest management level), say, the headquarters of the bank. This can give a clearer picture since the sample can be the top overseers of the whole mortgages and related valuation exercise.

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