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VALUATION FOR LOAN SECURITY PURPOSES IN THE CONTEXT OF A PROPERTY MARKET CRISIS - THE CASE OF THE UNITED KINGDOM AND POLAND

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Abstract

Valuation for loan security purposes has been a key issue related to property valuation, financial markets and the economy in general. This paper attempts to demonstrate the main reasons for interest in this field by referring to the situation in Poland and the United Kingdom. Moreover, the conditions of valuation for loan security purposes in Europe have been outlined, as well as the new challenges that property valuers have to face. Questions regarding unified and harmonious valuation standards have been presented in relation to international, European and domestic professional standards and legal regulations. The conclusion addresses further challenges of property valuation that must be tackled urgently, because valuation results are strictly connected with the profitability and safety of investments in the property market. Furthermore, the paper emphasizes that uncertainty in the valuation process also needs to be taken into account, as the appraised properties secure loans given by institutions funding their development.

Keywords: real estate, mortgage, valuation standards, risk analysis on property market.

JEL Classification: R30, A23, A29.

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1. Introduction

The globalization of investment markets and development of regional markets in which there is free mobility of investment and enterprise, such as the EU, require valuers in different countries to work to the same standards. Investors are otherwise faced with valuation reports that have to be interpreted differently according to the country they have been prepared in. In some countries, valuations are, by law, produced by professionals who would not even be regarded as properly qualified to do so in others. Data, such as rent per square meter, may not be measured on a comparable basis.

Two different approaches have been adopted internationally to try to standardize valuations. One of them seeks to develop regional standards. This is the approach adopted by The European Group of Valuers' Associations (TEGoVA); this approach is not, however, followed in the UK. Although the Royal Institution of Chartered Surveyors (RICS) was active in developing TEGoVA, it has now withdrawn from its activities. This is significant as it is the largest of the European valuers' associations, the best resourced, and has worldwide membership. TEGoVA's members are no longer exclusively European and include the Appraisal Institute from the USA. The reasons behind the resignation from this approach have not been publicly articulated but it seems probable that there are two areas of disagreement. One has been whether to adopt European Euro Norm EN 45013 or the external accreditation of valuation bodies as well as state regulation. The other concerns the validity of regional blocks of standards in a globalized world. Instead, the RICS has adopted the standards of the International Valuation Standards Council, replacing its own valuation standards where international ones exist. These are intended to combine with the International Financial Reporting Standards and to be applicable worldwide rather than on just one continent. The EU has adopted them rather than develop its own accounting standards.

The turning point in the globalization of property valuation was 2005, when all the listed companies in the EU were required to adopt the International Financial Reporting Standards. As an interim, each country retained its own Generally Accepted Accounting Practice for unlisted companies but their use is starting to disappear in favor of International Financial Reporting Standards. Property valuers all around Europe reacted by undertaking numerous activities, such as organizing the international conference in Warsaw, hosted jointly by The Royal Institution of Chartered Surveyors (RICS) and The Polish Federation of Valuers' Associations (PFVA). Barry Gilbertson, the president of RICS at the time, emphasized in his speech that, "it is fundamental for the survival of professional valuation that the public interest is protected."

Guarding the public interest, valuers have one crucial duty – to undertake valuations in a comprehensible, transparent manner so as not to confuse their clients and to provide accurate estimates of value for those who rely on them. A valuation must clearly show how the valuer has calculated the precise figures representing the value, and what factors determine this given value. More importantly, if the valuation is carried out by a recognized European authority (REV or F/MRICS), the client needs to be sure that the market value is perceived in the same way by any valuer regardless of his nationality, be it British, German, Polish or Lithuanian. Cross-border capital movements and companies, as well as harmonized European banking regulations require a cross-border valuation process and unified understanding of the concept of "value". In order for it to work, the valuers in different countries need to act according to up-to-date, uniform valuation standards. At the end of the aforementioned 2005 conference in Radisson Hotel, Warsaw, Chris Grzesik (the Chairman of RICS Europe at the time) concluded: "Ten years ago, the Polish valuation standards were state of the art and in conformity with international thinking. Even today there are few countries in Europe with properly drawn up valuation standards. With the introduction of IFRS across the EU, those standards now require review and modification. The good news is that the PFVA along with the RICS are still well ahead of the game in terms of their innovative thought and readiness to implement revolutionary change in response to globalization, client demand and the public interest."

During the following years, all the influential European organizations have been attempting to establish up-to-date professional standards for property valuers. The results were: IVS (International Valuation Standards 2011) issued by the International Valuation Standards Council (IVSC), EVS (European Valuation Standards 2012) issued by the European Valuation Standards Council, the revised Red Book by RICS, and the PKZW (Powszechne Krajowe Zasady Wyceny – General National Principles of Valuation) issued by the PFVA. Polish standards were adjusted to the aforementioned foreign standards. Although all of them compete with each other in a way and differ in regard to scope, volume, and approach to details, they all reveal global ambitions and remain coherent when principles are concerned. The global economic crisis of 2008, affecting the USA, Europe and most developed and developing countries of the world, was yet another impulse for the rapid development of a global perspective with respect to valuation and property value. Overestimations and an incoherent understanding of the notions of market value and loan security value throughout the world were largely responsible for the breakdown of the banking and financial systems. Now, in 2013, all of the above listed professional standards pertaining to property valuation propose a definition of market value consistent with the EU directives and Polish legal acts regulating valuation standards.

A remaining problem is introducing up-to-date property valuation standards and grasping the importance of accuracy in appraisal. This is particularly vital in the context of secured lending backed by real property. Moreover, it is essential that the role of the valuer in the process is fully comprehended by him or her, as well as by other participants of the market such as banks, bank supervision institutions and borrowers. The accuracy of valuations depends, substantially, on the skill, knowledge and experience of the valuer, so standards regarding the education, training, examination, and supervision of valuers are significant.

2. The impact of financial innovation on mortgage valuations in the United Kingdom

During the 1980s, the UK went through a significant deregulation of its financial services industry, which has had significant implications for secured lending backed by real estate. Behind these changes was a process in the financial services industry known as disintermediation. This is the process by which customers buy financial products directly from a financial institution rather than through specialist intermediaries. These intermediaries tended to offer advice and guidance in addition to the actual products. Until the 1980s, different types of financial institutions provided distinctly different services. Thus, banks did not provide insurance or residential mortgages, insurance companies did not offer banking services, and retailers limited themselves to selling food and consumer goods to their customers. Residential mortgages were principally provided by building societies, which are mutual savings banks owned by their depositors. They were not permitted to offer banking services to their members, such as personal loans and overdrafts. This meant that, by law, they could not lend customers a mortgage that was greater in value than the dwelling being purchased. Valuations by qualified valuers played an important role in ensuring that the value of each new property for which building societies lent the purchase price was greater than the mortgage secured against it. However, whilst the government regulated mortgage advances, it did not regulate valuations which were left to the valuation professional bodies and the financial services industry.

During the 1980s, the UK government embraced both the globalization of finance and the end of specialization. Exchange control was abolished in 1979 so that UK businesses were free to invest wherever they wished throughout the world without restrictions on either the amount invested or the type of investment. Similarly, foreign businesses were free to invest in the UK, including portfolio investments as well as direct investments. British businesses could also freely raise finance abroad. As a result, the government was obliged to change the way in which the monetary policy was conducted, moving away from having control over the ways in which banks raised finance, and undertook lending to a regime based on the Bank of England's bank rate. The monetary policy must be distinguished from prudential regulation, whereby banks must hold reserves according to the amount and risks of deposits and loans. The change in policy ended the banks' cartels on interest rates and brought about greater competition between them, as well as the entry of foreign banks into domestic lending to both business and households, including mortgages.

The deregulation of the financial services industry occurred in many areas but the deregulation of building societies after 1986 was a particularly significant field for valuations. They were permitted to offer a much wider range of services, including banking, insurance and unsecured loans. The restriction that a mortgage advance could not exceed the value of the property was removed. Some restrictions remained, as mutual savings banks owned by their depositors cannot quickly increase their equity capital. They were given the power, with the approval of their members, to convert into banks, and most of the larger ones have done so.

Building societies were keen to secure these regulatory changes because of competition from banks in their traditional areas of operation. The change in bank regulation enabled banks to diversify into the mortgage market which led to the possibility of making new profits. Applications for mortgages brought in customers to whom a range of other financial products could be sold, including banking and insurance services. Banks migrated from being organizations that provided bank accounts and loans to industries into ones selling a range of financial services to both firms and households. The household market was particularly attractive for domestic banks, as it was less competitive and more difficult for foreign banks to enter than that of companies.

During the 1980s, the provision of residential mortgages moved from financial bodies which were not permitted to lend unsecured loans to ones which could and had a strong financial motive to do so.

So, did this move lead to the abandonment of mortgage valuations? The answer is no – or at least not yet – though there is less reliance on the traditional residential mortgage survey and valuation by the financial services industry than in the past. Mortgage valuation is still an important safeguard for the lender in the case of a new purchaser seeking to buy a property. The survey should identify defects in the property that might undermine its value and are not apparent without direct inspection by a professional with the knowledge and experience to identify them. Professional valuers also recognize when the price agreed on between the buyer and seller diverges from the market price.

The mortgage market has also developed transactions where a traditional valuation can be dispensed with in favor of automated valuation models based on the principles of mass appraisal. The highly competitive mortgage market has seen the development of initial discounts on interest rates. These typically offer a low initial fixed rate of interest for two years, followed by reversion to the standard interest rate for a set period of time. During this period, the borrower is locked into the mortgage and cannot transfer to another lender or redeem the mortgage without financial penalty. However, once this period is over, the borrower is free to shop around for a better deal. Lenders do not necessarily require a new valuation and mortgage survey on remortgages but may make their decisions about loans using automated valuation models. A survey may be required for non-standard properties or where the property is identified by the models as posing a particular risk. Many mortgage transactions during periods in which house prices are on the rise take the form of additional advances, what is known as mortgage equity withdrawal. A borrower might have obtained a mortgage of 90 percent of the value of the property when it was purchased ten years ago. Today, after a decade of rising house prices, the mortgage advance might be only 60 percent of the current market value of the property. This makes a further advance secured against the property possible, particularly if the borrower's income has also risen during this period. The advance might be for improvements to the property or for consumption, but many new businesses have also been financed from such equity release. Lenders in many cases use automated valuation models to determine whether to make the additional advance unless a risk factor is identified, such as the proportion of the current value of the property that the additional advance represents. So, whilst traditional mortgage valuations have come under challenge, changes in financial services have not led to their demise.

3. The role of valuers and professional standards on the property market in the UK

There are no legal restrictions in the UK on who can describe him- or herself as a valuer or what qualifications valuers should possess. There are certain professions where there is legal regulation and no-one can use the professional title unless they are qualified and registered to do so, such as a doctor, architect or auditor. This is not the case with valuers. Anyone can set up in business as a "valuer" and carry out valuations. In practice, the market for valuers is highly regulated by professional bodies and the principal consumer of valuations, the financial services industry. The main users of valuations have been persuaded that only members of recognized professional bodies are capable of carrying out valuations which can be relied upon. This means that almost all valuations are undertaken by members of the Royal Institution of Chartered Surveyors or one of the smaller specialist valuation bodies, for example, that for agricultural surveyors.

The system brings together a mixture of state regulation, self-regulation, and regulation by the market. The Royal Institution of Chartered Surveyors, along with most major professional bodies in the UK, operates under a Royal Charter. A royal charter brings prestige to a professional body as well as guaranteeing its privileges. It is its constitution. However, the professional body does accept a considerable degree of oversight and potential intervention of the government in its affairs. It gives the profession the status of being a regulated body under EU directives on the mutual recognition of professional qualifications.

A royal charter is issued by a body called the Privy Council on behalf of the monarch, and this body is responsible for regulating those organizations with charters. For example, many British universities and cities also have royal charters. The Privy Council is a relic from the days of absolute monarchy in Britain and is subject to limited democratic accountability. It mainly comprises senior politicians, who are appointed for life and a small number of whom are required to act as a quorum for meetings. The charter does allow the government to influence how a professional body operates. A recent example is when the RICS came under pressure to separate its roles of regulating and promoting the profession. It was argued that a body seeking to promote the interests of chartered surveyors could not also act as a protector of consumer interests when investigating complaints against its members. The professional body must both act as an independent tribunal in disciplinary matter and be seen to do so. The RICS, therefore, placed its regulatory activities in the hands of a body answerable to it but directed by non-members.

An important question is why major companies, particularly from the financial services industry, are persuaded to use professionally qualified valuers when they could save costs by employing valuers who are not professionally qualified or not employing valuers at all? The fact that they do employ professionally qualified valuers means that the self-regulation is a serious force since expulsion is amongst the disciplinary sanctions available to the RICS and, therefore, the termination of the *ability* (though not the *right*) to work as a valuer. The answer is that the consumers of valuations have been persuaded that it is sensible to have valuations carried out by persons who have attained a minimum standard of education and experience maintained through continuous professional development, are obliged to follow valuation and professional standards, and have professional indemnity insurance. The latter means that if they are successfully sued in the event of professional error, compensation can be paid by an insurance company rather than being limited to the personal assets of the valuer or those of the company he or she works for.

The professional standards do not just cover valuation but also related services that valuers may offer to clients, such as estate agency and property management. They include, for example, accounting regulations that apply to any member who manages money on behalf of a client, such as a property manager who receives rents and undertakes expenditure, for example, on maintenance. They are designed to ensure that members do not defraud their clients by moving money into their private accounts or those set up in the names of wives or children. The main consumers of valuation services are themselves seeking to raise finance in the global capital markets so the use of professional valuers from a regulated profession is a potentially useful argument for them to employ as to why investors should entrust them with their money.

The regulation of valuers is pro-active and not just reactive. In other words, it does not just respond to complaints about members but actively checks the quality of the work done. Samples of individual valuations undertaken by each valuer or company are subject to review. The RICS, in conjunction with the main data provider for commercial property values, IPD, carries out an annual statistical analysis of the deviations of valuations from sale prices.

Valuation standards in the UK were first introduced in 1974, following the banking crisis of that year. In a situation with parallels to the current financial crisis, a number of banks had borrowed money from the secondary finance market in the 1970s, in other words, from other financial services bodies and major companies rather than from retail depositors. Much of this money had been loaned to property developers taking advantage of rising house and commercial property prices. Unfortunately, in 1973, OPEC, the cartel of oil-producing countries, began to exercise its power and oil prices quadrupled over the period of a few months. This had the effect of plunging western economies into recession and the UK into a serious balance of payments crisis as the cost of imported oil rose. The government responded with deflationary economic policies, including raising taxes, cutting public expenditure and raising the Bank of England's Bank Rate. Many developers were squeezed between falling demand (and rents) and rising interest costs (and falling capital values of their developments). A lot of of them went bankrupt or were unable to repay their loans. Consequently, this created a crisis for banks which had granted such loans since they could not, in turn, repay their lenders. The Bank of England was obliged to rescue a number of these banks.

Inevitably, during such a crisis when lenders or investors find that properties are not worth what they were valued for, they turn to suing the valuer who made the valuation, particularly if the valuer has insurance. There are two main reasons why properties might be worth less than their original valuation. One reason is that market circumstances have changed. Valuations are estimates of the price that a property might be sold for between a willing buyer and a willing seller at the current time. They are not forecasts of future value, which might be lower. The other reason is that the valuation was made negligently.

The common law position of a valuer is that he or she should exercise the proper professional skill and care expected of a competent professional. Where valuers are sued for negligence, it is alleged that normal professional skill and care had not been exercised and that losses had, therefore, been incurred by someone who the valuer could reasonably have expected to rely on his or her judgment. The 1974 standards were the beginning of a process by which that reasonable professional skill and care is defined so that the public can have confidence in the accuracy of valuations. The first standards concerned asset valuations. They became known as the "Red Book" after the color of their covers and the name has stuck as colloquial shorthand for the range of valuation and professional standards and guidance issued by the RICS for the use of its members, even though today, many members access them on-line or through a cd-rom. The name might even owe something, with typical British humor, to Mao Zedong's *Little Red Book,* which student revolutionaries were inclined to brandish at that time. The standards became mandatory for members in 1991.

Valuation standards serve two important functions. They clearly identify what a valuer should and should not do. It is open to an individual to depart from them providing that he or she can demonstrate that the departure enabled them to achieve the same outcome – a courageous thing to do! Failure to follow them exposes the individual to the risk of being sued for negligence, since the standards embody how a competent professional can be expected to behave, as well as to disciplinary action by the professional body. Following the standards provides a potential defense to an allegation of negligence as well as reassurance to the public. They remove some of the potential for variability of valuations between valuers since similar approaches should be used. They do not remove the variability that comes about from the analysis and interpretation of comparative evidence of prices. Evidence from the annual comparisons of sales prices and valuations undertaken by the RICS and IPD suggests that in periods of recession when price evidence is of limited availability, there is greater variability in valuations (SHAMSAN 2012, LEE, HOWELLS 2013).

The RICS standards now fall into two parts: those of the International Valuation Standards Council, which have been labeled as RICS standards in the Red Book, and standards of purely national relevance. Thus in valuations for secured lending, valuers are required to have regard to the International Valuation Standard 310, Valuations of Real Property Interests for Secured Lending. An example of a national standard is the UKVS 3 Valuation of residential property. The reason for a national standard in this area is because of the role of national legislation and practices, for example, valuations for taking out mortgages on property which is to be rented, where there is shared ownership, and equity withdrawal to provide income for the elderly.

4. Conditions for the development of a property valuation system and professional standards in Poland

The comparative analysis of valuation systems for loan security purposes in Poland and in the UK brings forth an interesting observation: the Polish economy and Polish valuers have come a long way in a short period of time. Namely, the departure from a command economy towards a market economy led to the change of valuation procedures – relative valuation was replaced by market-determined valuation methods, commonly used in developed countries.

This profound change in valuation methodology and understanding of the concept of market value came to pass between 1989 and 1994 (GRZESIK, ŹRÓBEK 2012). That was when the modern comparative approach was adopted by all Polish valuers. In 1995, the first Polish Valuation Standards were issued. They were based on the valuation practices in English-speaking countries. More importantly, the Polish system of professional qualifications for property valuers has been unique in the world because it is based on state-issued professional licenses. These licenses were introduced in the early 1990s. There are numerous requirements for those attempting to obtain such a license. In fact, the quality of Polish valuers' education and professional qualifications can be seen when they apply for the REV (Recognised European Valuer) status, granted by TEGoVA in agreement with the respective European member associations.

The need for the international unification of professional standards, a similar approach to valuation procedures and comprehension of the main concepts related to valuation (such as market value) was recognized at the turn of the century. The European Group of Valuers' Associations (TEGoVA) introduced a certification system for valuers in Europe under Euro Norm 45013. The reasoning was that clients, particularly mortgage lending banks, were confused by the diversity of property valuation qualifications across Europe. In particular, it was not clear which valuers were competent and experienced. However, 6 years later, TEGoVA withdrew from the idea of certification and introduced the REV project instead. The "Recognition of Professional Valuation Practice" system is more flexible and is supposed to confirm the cross-border qualifications of a valuer. Moreover, it was created in order to ensure the client that the professional commissioned to undertake the valuation satisfies these requirements:

- has attained a desired level of higher education and professional practice, and has been examined in property valuation in accordance with an appropriate curriculum,
- continues to practice as a valuer,
- is up to date with the law and practice of valuation through a structured program of "lifelong learning" or "continuous professional development."

To be granted REV status, the valuer should prove the following:

- 2 years of professional experience in property valuation,
- at least twenty written valuations undertaken within the last two years,
- that he/she is a member of a TEGoVA member association (e.g., PFVA),
- that he/she has undertaken a minimum of 20 hours of continuous professional development per year.

In fact, only RICS members and Polish valuers are eligible for applying for REV status straight away. In Poland, a candidate hoping to become a property valuer is obliged to have graduated from property valuation studies (with either a graduate or postgraduate degree). A person attempting to take a state examination for property valuers needs to have completed an internship comprising the preparation of valuation reports that concern various types of property and valuation methods. Once the internship is completed, the candidate may apply for state examination before the State Examination Board for Property Valuation. The board members are experienced property valuers and academics (in most cases also valuers). The examination consists of two parts – if the candidate passes the written test he or she may go on to take the oral examination. So far, statistics show that, on average, 25-30% of candidates pass the examination. Every Polish valuer that has been granted a professional license is required to exercise continuous learning and development. The organs supervising the quality of the profession are: the Professional Liability Committee operated by the Ministry of Transport, Construction and Maritime Economy and arbitration boards - by professional valuation bodies. Thus, Polish valuers have to satisfy numerous formal requirements. It seems they are even more restrictive than the criteria for REV candidates. Additionally, it is worth mentioning that the Polish Federation of Valuers' Association (PFVA) together with TEGoVA's French and Italian member associations have committed to the REV pilot project.

5. Current regulations of valuation for loan security purposes in Poland

"The world's financial community and those that regulate it are increasingly putting greater reliance on valuations rather than cost, whether for investment decisions, risk profiling or disclosure in financial statements. As a result, there is a rapidly growing recognition that there needs to be a comprehensive single set of global standards of valuation," observed Marianne Tissier, Executive Director of IVSC (International Valuation Standards Council), reacting to the global economic recession of 2008.

It became clear that a new approach to the categories of value, loan security, valuation and risk management (particularly in the context of valuation for loan security purposes) is needed. The importance of these issues increases as global stock exchanges are taken over by bears, and bulls are forced to retreat.

Poland answered the crisis by issuing domestic valuation standards, General National Principles of Valuation (Powszechne Krajowe Zasady Wyceny, PKZW) compatible with EVS, IVS and RICS standards as well as with all domestic and international prudential regulations issued by The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego, KNF) and the Basel Committee on Banking Supervision (BCBS). Even though PKZW mostly expands and specifies Polish legal regulations concerning property valuation, two of the standards – the Valuation for Financial Reporting Purposes and the Valuation for Loan Security Purposes – represent a somewhat revolutionary approach to certain aspects of valuation.

The only standard adopted in agreement with the Ministry and obligatory for all the valuers working in Poland is the Valuation for Loan Security Purposes. It comprises all the rules defined by EVS, IVS and the Red Book, yet it also introduces innovative approaches to valuation in loan security by emphasizing the valuer's role in the process of appraisal and risk management and assessment. Traditionally, valuations have been for a single point in time, whereas users tend to want some indication of how values may change in the future. The standard places responsibility on the valuer to comment on the risks behind the valuation without taking responsibility for credit risk assessment. Therefore, the document is useful to banks or other financial institutions that offer secured lending backed by real property.

The standard began to emerge in 2006, after the PFVA and the Polish Bank Association (Związek Banków Polskich, ZBP) signed an agreement. The creation of the system of valuation for loan security purposes was finished on 4th January 2010, announced by the Minister of Infrastructure. Since then, the standard has become a binding legal document. The Standard Committee (Komisja Standardów) had been trying for several years to establish a standard that would meet the demands of all the market members related to loan security. The result was the introduction of prudential regulations and elements enabling the creditors to improve risk management.

Paragraph 4.3 of the standard obliges the valuer to additional activities that are not necessary in other cases:

The valuer has the obligation on the basis of available sources and market knowledge to point out areas of risk associated with the property being valued, including foreseeable changes in the given market as well as the risk associated with the assessment of the subject property by investors together with a general opinion about the direction of the influence of the above on the value of the property being valued in the future. The above additional information is to be set out in the form of an attachment to the valuation report (*Valuation for Loan security Purposes* 2010).

Moreover, the valuer should assess the utility of a property as loan security and:

In the valuation report, reveal the known circumstances limiting the property's utility as the subject of loan security (*Valuation for Loan security Purposes* 2010).

The standard indicates the areas where a specialized valuer may undertake additional assessments, which allow the risk management of the security value. It emphasizes that:

Value assessment must be distinguished from credit risk assessment. Detailed analysis and interpretation of risk associated with the subject of security can be an additional activity for the valuer and a subject of separate elaboration, not included in the valuation report. According to the possessed qualifications, a property valuer may, commissioned by the creditor or the commissioner, additionally prepare a sensitivity analysis which will allow for a fuller assessment of risk of accepting a concrete property as the subject of loan security. The sensitivity analysis sets out the sensitivity of the value of the subject property to changes in variable inputs, influencing such value. The definitive risk assessment associated with loan security is in each case the obligation of the creditor (*Valuation for Loan security Purposes* 2010).

A valuer may propose a range of analyses to financial institutions; apart from the regular valuation and sensitivity analysis there is also scenario analysis, a land residual technique and uncertainty analysis. These methods allow the future value that a property might reach to be explored. This piece of information is crucial when making financial decisions, for instance concerning mortgages.

The new Valuation for Loan Security Purposes standard is, in our opinion, important and up-to-date, but it constitutes only one of the many elements in the system of valuation supervision for banks and financial institutions. Alongside this standard, both valuers commissioned by banks and for bank employees dealing with risk assessment, who decide whether a loan secured by a certain property should be given or not and what the value of the security should be, participate in training. Training and standards were designed so as to make the valuation for loan security purposes comply with the Polish law. The said valuation should also be compatible with TEGoVA's European standards (EVS) and international standards (IVS). It also needs to conform to the planned EU directives concerning valuation standards for loan security purposes and prudential and supervisory regulations for banks and financial institutions (Basel I, II, III)[1]. The draft Directive on credit agreements related to residential property, as amended by the European Parliament's ECON Committee, requires that member states ensure that sound valuation practices are applied in accordance with international

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[1] Basel Accords are a set of regulations concerning capital requirement and risk management in cross-border banking. The current is Basel II. Regulations of Basel II were transformed into a binding EU law by:
European Parliament and Council Directive no.48/2006,
European Parliament and Council Directive no.49/2006,
jointly referred to as the Capital Requirements Directive (CRD).
The subsequent regulation, Basel III, was announced on 26th July 2010. The implementation process is fairly long and is supposed to end in January 2019.

standards. The Polish legal system adopted the Capital Requirements Directive (CRD) by the resolution of The Polish Financial Supervision Authority on 17th December 2008.

It is worth mentioning that there are separate panels of valuers maintained by banks where only those valuers who passed an additional examination can be registered. Formally there is no legal requirement for valuers to be listed in order to undertake valuations for banks. However, in practice, banks do not usually commission unregistered valuers to perform property valuation for loan security purposes.

6. Conclusion

In the United Kingdom, the financial services industry was subjected to strict regulation until the 1980s. Later on, the process of deregulation and the government's support of globalization allowed for the freedom of investment and free movement of capital. It ought to be mentioned that Poland was only about 10 years behind the UK in this respect. The Polish banking system has been rapidly making up for the lost time, as domestic banks would otherwise be taken over by foreign capital. Furthermore, the seemingly contrasting property valuation regulations in Poland and in the UK are, in fact, surprisingly similar, in spite of one country having formal legal regulation of valuers and the other not. In both cases, valuers are faced with similar educational requirements. In the UK, the valuers' qualifications are regulated by the market and professional bodies; in Poland, there are legal regulations in this respect, set up by the Parliament and the government, but professional bodies (similar to the British RICS) also exist and support the state. Just as RICS issued the Red Book in 1974, PFVA issued its own set of standards, the Green Book, in 1995. Additionally, the meaning of the crucial definition of market value is the same in both cases. More importantly, RICS and PFVA continually strive to develop the established standards. Therefore, it may be stated that both the UK and Poland have adopted a modern, up-to-date approach to the matter of property valuation. They are well ahead of some other countries, especially when it comes to valuation for loan security purposes.

Still, there is a need to observe the changes in the world and in the EU. European valuers in particular have to be watchful as the economic crisis is not over yet. Michael MacBrien, Director General of the European Property Federation, said in a 2011 interview that, until recently, the valuation profession had been relatively unaffected by EU legislation but "all that is changing now, though, as valuation moves to centre stage. There are two aspects to this - the rise (or fall) of valuation as a core component of the financial crisis, and the increasing recognition that valuers hold a key to the success of EU real estate policy. For those of us here on deck, it's a perfect storm. Out of nowhere, EU control over the previously sacrosanct freedom of nations to blow money they don't have any which way they want. And a tidal wave of detailed EU regulation and supervision of every aspect of financial markets." The long awaited EU Mortgage Directive looks to be supportive of international valuation standards, at least in its current draft.

Property valuation has become a part of politics, and is appearing in EU directives such as the Alternative Investment Funds Managers Directive, concerning asset valuation of property investment funds and regulating the conditions of use of property valuation services. The directive also refers to future resolutions associated with the valuation procedures. Banks securing their loans by mortgage need to know the answers to two essential questions:

1) how to present the method of reporting on the uncertainty of the output figure to the client so as not to undermine but enhance the credibility, reputation and professionalism of the valuer?
2) how to reduce the uncertainty of valuation – can it be measured? If so, how to do this and what factors can help to reduce it?

There is one more important issue arising from the subjective character of each valuation: the valuation result depends on the initial presumptions. Assuming that these presumptions are input data, the following thesis must be adopted in research: variability in valuation is a function of input data. Therefore, one must seek the probability of the appearance of certain input data. It is no accident that, alongside the growth of valuation standards, there has been a development of publicly accessible property transactions and valuation databases. Some of these have derived from land registration data and come from governments whilst others, like those from IPD in the UK and the National Council of Real Estate Investment Fiduciaries in the USA, are private initiatives developed by property investors and professionals. Chmielak G. (CHMIELAK 2009), the Head of the Valuation and Market Analysis Department at Westdeutsche ImmobilienBank AG, has observed that the valuer's opinion included in the valuation report only partially conforms to the demands of financial institutions. He mentions two reasons for this situation:

1) A valuation report comprises a written characterization of the property, and such a description may not be systematized. Despite the fairly precise requirements in regard to reports, valuers are free to formulate them as they please, particularly when the description and appraisal of the market and the property itself are concerned.
2) There are no uniform standards for the appraisal of property characteristics. For instance, the assessment of localization can be performed with the use of any gradations which are rarely defined or described in the valuation report. There are no internationally agreed property measurement standards.

French and Gabrielli (2005) have stated that:

Uncertainty in the comparable information available; uncertainty in the current and future market conditions and uncertainty in the specific inputs for the subject property. These input uncertainties will translate into an uncertainty with the output figure, the valuation.

The problem that emerges from the examination of the literature pertains to the methods of measuring uncertainty and addressing the valuation issue in this context. A prevailing option suggests that individual valuation should be abandoned and advanced mathematical models should be used instead. The problem in question has been discussed by many researchers (French, Gabrielli 2004; Adair et al. 2005; Mallison, French 2000; et al.). It seems that advanced statistical models can be of help. However, the valuation process is not a mathematical test; it is an ability of identifying new market facts and establishing how they are interrelated (French, Gabrielli 2005). Each valuation leaves room for some elements of art and intuition because of the inherent variability between properties, and this is where the genius of some advisers (and investors in particular) can express itself.

The above statements are important in regard to two issues that need to be resolved: the possibility of comparing property values and the transparency of valuers' opinions. These factors are crucial in loan decisions and securitization activities. This is particularly vital as the economic situation is changing rapidly.

The analysis of the historical background and current challenges of valuation in the UK and Poland has brought forth a general conclusion: valuation reports must present results in a form that allows and enables investors to make a sound decision. Polish and British valuers seek possible solutions to the problem of valuation variability, namely how to reduce the discrepancies in valuations of the same property undertaken by different valuers. They also consider how uncertainty in a valuation report may enhance, not undermine, its credibility, and how it can be useful in risk management. Moreover, in both countries, valuers look for innovative valuation methods and tools. Finally, they try to establish new ways of presenting information that is essential to their clients.

Thus, the main challenge for valuation professionals lies in developing a deeper understanding of market globalization and better analytical skills, with a view to assessing accurate values. The educational system at the university level should encompass programs which will prepare valuers for providing proper advice affecting important investment decisions of real estate market participants (Źróbek, Grzesik 2013).

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