Practical Doubts Related To Bank Valuation

- Part 1

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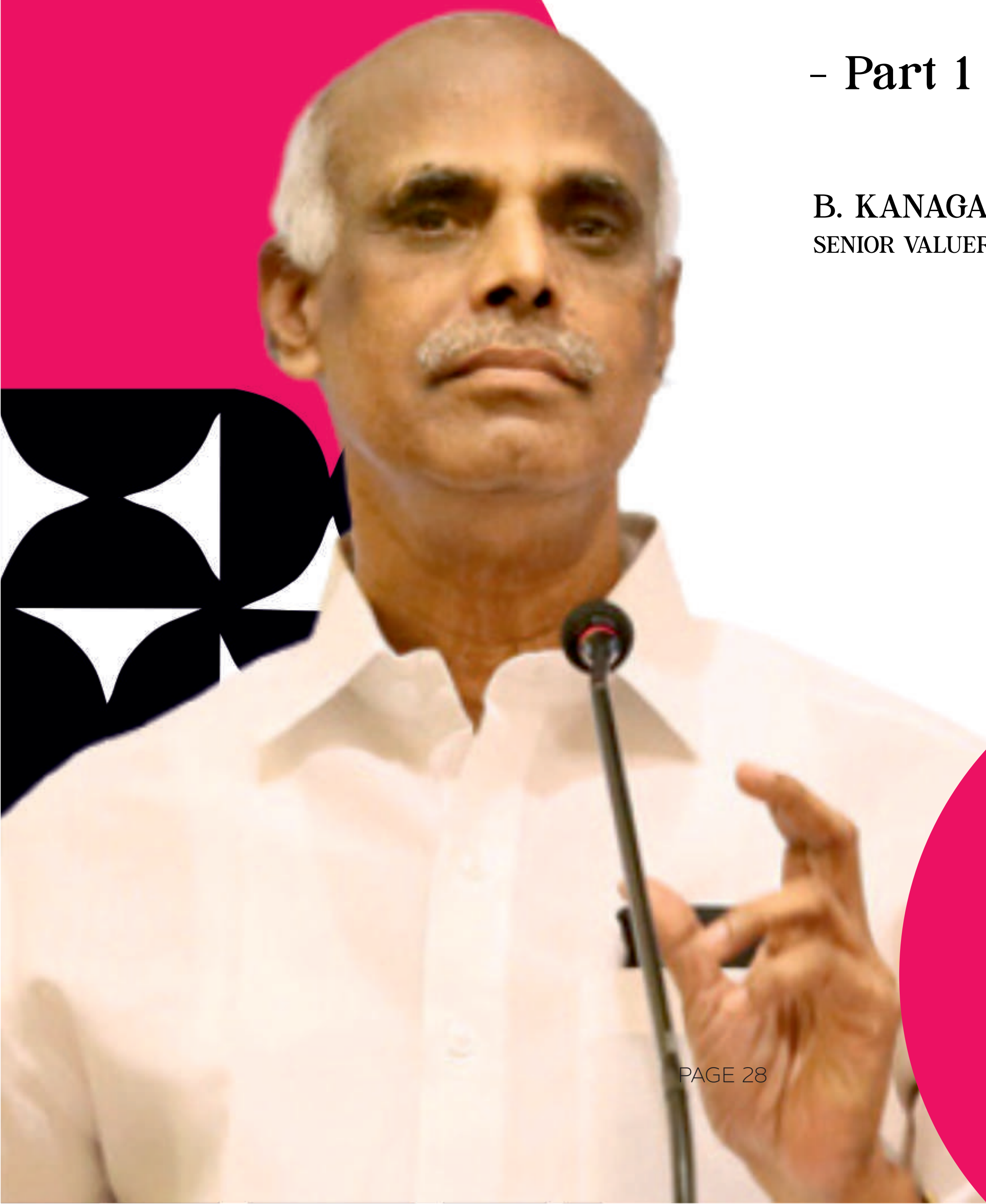
SENIOR VALUER



Question 1 :

My father is a branch manager in a bank. Whether I can apply for empanelment as a panel valuer in that bank?

Opinion 1 :

There is no specific clause in the guidelines issued by the bank that the children of the bank staff cannot apply to become a panel valuer of the bank.

Question 2 :

A vacant land of approximately 18 cents is to be valued for bank purposes. During the inspection, it was found that there was a pond (approximately 12 cents in area) which was excavated long before (purpose unknown - owner's where about is also not known). It looks like an abandoned property which was mortgaged a decade ago. How to value it now as a major portion is occupied by the pond. No construction is possible without filling the pond with earth. Similar properties (plain land) in the locality fetches Rs. 6,00,000/- lakhs per cent.

Opinion 2 :

1. Any property has a value.
2. Analyse whether the land can be sold in the open market after filling up the pond.
3. If so, find out the value assuming it is a plain vacant land.
4. Calculate the amount to be spent for earth filling (or sand filling) and consolidating.
5. Sl. No. 3 minus Sl. No. 4 may give some value.
6. Discuss the negative factors affecting the marketability and enforceability and certify suitable market value.
7. Before signing the report, apply 4 way test.

(Note : If the land is an abandoned quarry, the above opinion does not hold good).

Question 3 :

There is a property of G+5 floors, sanctioned with the municipal corporation, in the name of X. Can we provide the valuation for the first floor only? Deed of declaration is not done. Total building is on lease and no portion was sold. Purpose of valuation is for collateral security.

Opinion 3 :

The right opinion depends on the conditions stipulated in the lease deed. Go through it patiently, refer the legal opinion and then take a judicious approach.

Question 4 :

It is a mofussil town. It is an apartment building under construction nearing completion. First floor consists of an office premises of 3,250 sq.ft. The promoter has already let out this portion to a nationalised bank for a net rent of Rs. 97,500/- per month (Rs. 30/sq.ft.). Now, Mr. 'X' has come forward to purchase this premise and the promoter has quoted a sale price of Rs. 2.76 crores. The composite rate is Rs. 8,500/- per sq.ft.. Mr. 'X' has gone for bank loan and the bank has directed me to certify the genuineness of the rate quoted by the promoter. My questions are :

i) How to ascertain the genuineness?

ii) If it is not genuine, how to advise the buyer to negotiate, if the promoter is agreeable?

Opinion 4 :

1. The genuineness of sale price can be judged to certain extent by the rent the property fetches.
2. A valuer must have sufficient data analysis with regard to the yield rate of the rent prevailing in the locality. For example, a shop used to give a rate of return of, say, 6% but in the present covid situation (Y 2022) and real estate trend, the rate of return is approximately 5%.

3. Yield rate for the sale value quoted :

Monthly rent = Rs. 97,500

Yearly rent = Rs. 11,70,000

Quoted sale price = Rs. 2,76,00,000

Yield rate =

$$\frac{11{,}70{,}000}{2{,}76{,}00{,}000} \times 100 = 4.24\%$$

This 4.24% yield is less.

Prospective buyers may wish to get a return of say, a minimum 5%.

4. Value if the yield rate is 5%,

Monthly rent = Rs. 97,500

Yearly rent = Rs. 11,70,000

Yield rate = 5%

Capitalised value =

$$\frac{11{,}70{,}000}{5} \times 100$$

= Rs. 2,34,00,000/-

It is a reasonable sale value for the buyer to buy the property for 2.34 crores when he is able to get 5% yield rate.

5. Negotiated price :

Composite rate =

$$\frac{2{,}34{,}00{,}000}{3{,}250}$$

= Rs. 7,200/-

The buyer can negotiate with the promoter to reduce this composite rate from Rs. 8,500/- to say Rs. 7,200/-.

6. Note:

1. The yield rate may vary from place to place, location to location, purpose to purpose and mainly demand.
2. What is suggested as above is for guidance only and the valuer must be able to take suitable decision depending upon the circumstances and situation.

Question 5 :

A bank gave loan for machinery in a factory building. Now, it wants to give term a loan for the same borrower and asked me to give a valuation report for the building. The building does not have an approved drawing, nor a construction license or occupancy certificate. House tax receipt from municipal office is available.

Gift deed is available. Permission from the municipality for bifurcation of existing structure for commercial activities is available. But the old structure is not seen at site.

A new factory shed has come up. The factory is running, and the product is available in the market.

Please advise how to proceed.

Opinion 5 :

For this case, you may advise the borrower to prepare a fresh drawing both for the existing structure and for the new factory shed and get them approved by the competent authorities. That is safe in the longer run for the bank and the borrower also. This approval is beneficial to the borrower if the account becomes NPA at any later date.

Question 6 :

A new chamber having GI sheet shed is of area 10,000 sq.ft. The local panchayat has approved the construction of building through five different drawings of 2,000 sq.ft. each. My question is : Can I consider the total shed as approved or not. This is for bank purposes.

Opinion 6 :

It is a chamber located in a village. The panchayat having the power to approve has sanctioned the drawing. If there is no possibility of demolition threat in your opinion, you may consider accepting it as approved. If in doubt, ask your senior valuers. Take a judicious approach considering the prevalent site conditions and the policy of the bank.

Question 7 :

What is the sq. ft. rate for Madras Terrace Roof building before depreciation? The purpose is for bank mortgages.

Opinion 7 :

An experienced civil engineer can fix a suitable replacement rate depending on the specification and prevailing conditions.

A practicing valuer must maintain a data bank.

A model-data bank is available at the author's website: www.bkanagasabapathy.com

Question 8 :

It is a large extent of land situated near a famous temple. The borrower received a notice from the Hindu Religious department stating that the land originally belonged to the temple, and he had no legal right to sell. The borrower has already pledged to a bank. Now the Asset Recovery Branch has directed me to do a valuation. How to certify?

Opinion 8 :

You may do like this :

The extent of land : Sq.ft.

Guideline rate : Rs./sq.ft.

Value of the land by adopting GLR : Rs.

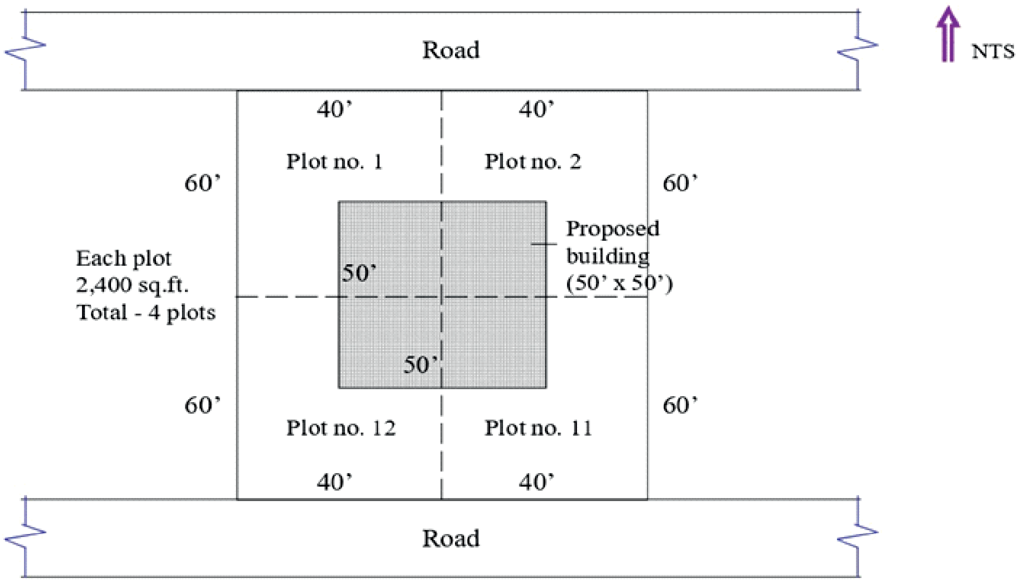
Note :

1. The religious department has issued a notice (copy enclosed) stating that the land belongs to the temple. Therefore, the property under valuation becomes a non-marketable property. Hence, this valuer is unable to certify any market value for the said property.
2. The issue can be referred to the bank's panel advocate or legal section for proper guidance.

Question 9 :

There are four plots of each 2,400 sq.ft.

A building (50' x 50') is proposed to be constructed in the middle of the four plots. For the purpose of valuation to the bank, whether I should merge all the plots and give one report or give four different valuation reports for each plot.



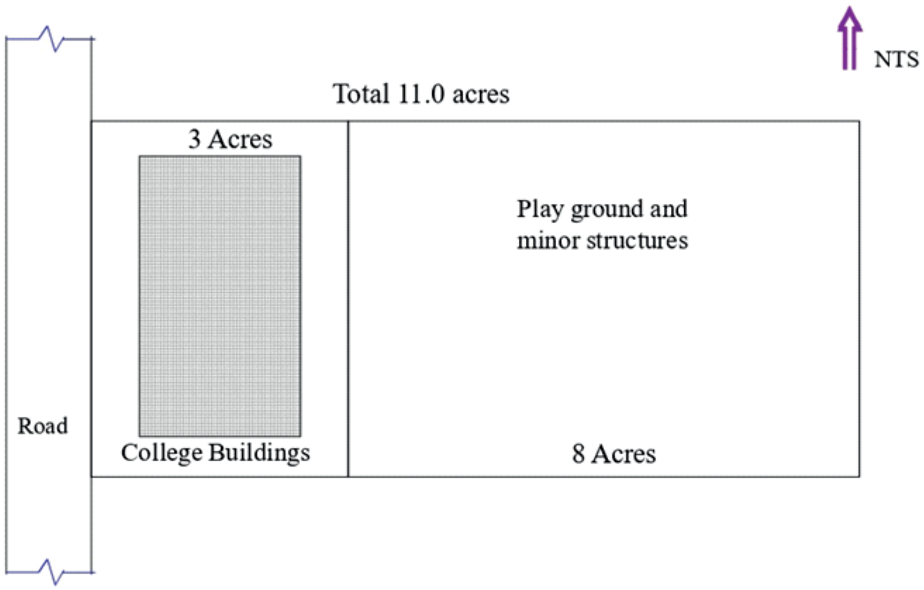
Opinion 9 :

1. The number of reports depends upon the sale deed.
2. If a single sale deed exists and "Description of the property" says four plots of 9,600 sq.ft., then do the valuation assuming a single property of 9,600 sq.ft.
3. If there are four sale deeds and if each sale deed is executed with one plot of 2,400 sq.ft. then value 2,400 sq.ft. of plot individually and issue four different reports.
4. Take a judicious approach depending on the prevailing site conditions.

Question 10 :

The total extent of land is 11 acres. Previously, it was an agricultural land having access in the western side. The owner Mr. X has obtained permission to convert 3 acres of land in the western side and developed an educational institution after availing loan from the bank. The rear portion of 8.0 acres is being utilised as playground, gym, stores and allied activities. Now, the bank has directed me to value the 8.0 acres of land.

The issue before me is : The revenue records show that it is only agricultural land and the owner has not obtained any conversion certificate. Under these circumstances, whether I can certify market value for 8.0 acres of land? Bank gives me pressure.



Opinion 10 :

1. As per your statement, the land under valuation is agricultural as per the revenue records and no conversion has been obtained by the owner.
2. The owner has not obtained any drawing approval from the municipal authorities for any construction in the 8.0 acres of land.
3. Under the SARFAESI Act, agricultural lands cannot be valued and cannot be pledged to a bank as mortgage. It is not a SARFAESI compliant property. If the borrower becomes a defaulter, auctioning such properties will be difficult.
4. Request the borrower to obtain conversion certificate first and get the relevant records corrected.
5. If the bank gives you pressure to certify the market value for agricultural lands which are used for non-agricultural purposes, request them to give pressure first to the borrower to obtain conversion.

6. The panel advocate can be consulted.
7. Take a judicious approach depending on the site conditions.

Question 11 :

I am a beginner in bank valuation. I would like to know the difference between vetting and valuation.

Opinion 11 :

1. Vetting is the process of certifying the genuineness of the estimate provided by the borrower at the time of availing of a housing loan. It is done by the panel valuer of the bank.
2. Vetting is for the specifications assumed, whereas valuation is for the works completed.

Question 12 :

In 2014, residential property was valued by me both for housing and mortgage purpose.

The area of the site:

1. as per the conveyance deed is 2,227 sq.ft.
2. as per the approval plan is 1,689 sq.ft.
3. as per actual is 2,552 sq.ft.

The least site area was considered for valuation. Now the property has become NPA.

Now the bank is asking me to do a valuation for SARFAESI. In this situation, which area I must consider for valuation? The MOD is executed for the document area.

Opinion 12 :

1. In the advertisement issued by the bank for the purpose of auctioning, the bank will mention the area of the plot as per the legal opinion i.e. 2,227 sq.ft.. Therefore, in this case, do the valuation for 2,227 sq.ft. Write the following note also in your report.

"Note: The area as per the conveyance deed is 2,227 sq.ft. but the actual area available is 2,552 sq.ft. The excess land of 325 sq.ft. is not considered for valuation in this case."

2. On the other hand, if the actual area available is less than the deed area, do the valuation to a lesser extent and record the observations in the report.
3. Taking a judicious decision depending on the site condition is expected from a SARFAESI valuer.