

## Valuation of Mortgage Assets Policy

### Overview

This section of the Compliance Manual of Trilogy Funds Management Limited (**Trilogy Funds**) is designed to:

- outline the obligations for Trilogy Funds Management Limited in relation to lending policy for mortgage assets; and
- document the lending framework in accordance with regulatory guidelines.

### Review History

The following Table sets out the history of modifications to this Valuation of Mortgage Assets Policy of the Compliance Manual.

Version	Date	Reviewer	Comments	Board Approval
22.00	March 2023	Legal, Compliance & Risk	Updated document	April 2023

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# 1 Valuation Policy

## 1.1 Rules that apply to valuations

- (a) Trilogy Funds requires valuations to be prepared by an independent, qualified, and registered valuer prior to advancing loan funds against a property being offered as security. In all cases, Trilogy Funds requires the valuation to meet the following criteria (amongst other things):
- the valuer must be a member of an appropriate professional body in the state or territory where the mortgaged property is situated;
  - the valuation must be addressed and assigned to '*Trilogy Funds Management Limited ACN 080 383 679*' for '*registered first mortgage purpose*' with the instruction letter attached;
  - the panel valuer must be independent of the borrower and Trilogy Funds;
  - must not be expressed to be limited to regulated authorised deposit-taking institutions ADI's banking Australian Prudential Regulation Authority (APRA) clauses;
  - no one individual valuer and conducts more than 33% of the total number of valuations works undertaken for each mortgage loan calculated by number of the security properties;
  - the report must comment as to whether the mortgage property represents satisfactory security for mortgage purpose as appropriate;
  - valuer must include a statement in their valuation reports as to whether the valuation complies with all relevant industry standards and codes;
  - the valuer must be instructed to prepare the valuation report in a format which clearly sets out the primary methodology used and, if so requested, a secondary check valuations methodology, in accordance with the instructions;
  - valuations for construction projects and completed developments should state a replacement value in the valuation for the purpose of Trilogy Funds determining the amount of insurance required; and
  - where a loan is for development or construction purposes, the valuer must assess the property of both an 'As Is' and 'As If Complete' basis. All other property loans are valued on an 'As Is' basis; and
  - must be co-signed by a director or principal of the valuation firm.
- (b) In circumstances where the loan is either a property development loan or a non-property development loan, valuation reports may contain a 'project related site value' valuation. This value may be a better measure of value of the proposed site if the developer, for example, has received development approval to build or construct on the land and has procured an agreement to lease with a tenant. In this circumstance, the 'project related site value' may be considerably higher than the 'as is' value. Risks involved in using this

value include that the development approval may lapse, or a potential tenant may not fill the tenancy due to a change in circumstances. Trilogy Funds' Lending Committee will assess the risk of using this form of valuation when approving a potential loan's LVR covenants; and

## 1.2 Valuation report

The valuation report must specifically include:

- date of inspection;
- photograph(s) of the subject property;
- copy of the title(s) to the land and search(s) thereof;
- description of existing improvements (if applicable) and value thereof (excluding chattels etc);
- zoning details to include any proposal or requirements which could affect the present and future value and sale prospects. Comment on non-confirming use and existing use rights if applicable;
- availability of services;
- GST Assumptions and treatment;
- S.W.O.T. Analysis;
- schedule of sales/rentals where appropriate used in the assessment with comments as to comparability. Comparable properties are to be adequately described;
- details of the documents received in determining the valuation and source of the documentation;
- list of authorities, local government statutory and other bodies or persons consulted;
- highest and best use to be identified, together with alternative or secondary use. Comment should also be made regarding the estimated cost of adopting an alternative use (where a building is involved);
- method of valuation;
  - land with development approvals in place 'As Is' (direct comparison and residual cash flow analysis;
  - cost of construction/development and your comment on such costs; and
  - gross realisation 'As if Complete' (include a schedule of individual lots). If appropriate, capitalisation method of valuation to be adopted. Give reasons why

the method used was adopted. List gross realisation 'As if Complete' in any executive summary pages and valuation section;

- provide a market commentary of whether the development is viable, level of competition and if susceptible to market change;
- suitability of property as security;
- comment on any detrimental features, including.
  - any environmental issues;
  - whether listed as a suspected site under the Contaminated Land Act (as varied in each State);
  - Vegetation Protection Ordinance; and
  - any other feature that may be identified;
- copy of the Trilogy Funds' instructions;
- commentary is to be made on the proposed sales rate of the completed development and justification for the rate adopted;
- certificate to be provided confirming independence of valuer;
- a statement that the report complies with the relevant industry standards and codes; and
- state within the valuation that the valuer is a member of the Australian Property Institute (API) or the Royal Institution of Chartered Surveyors (RICS); and
- any other requirements as stipulated in the valuer's professional indemnity insurance policy.

## **2 Pre-Submission Valuations**

### **2.1 Expiry**

- (a) Subject to paragraph (b) below, valuations should not be more than four (4) months old as at the date of approval of the loan by the Lending Committee.
- (b) Notwithstanding paragraph (a) above, where the valuer stipulates that the valuation is current for a shorter period of time (e.g. 3 months), the valuation should not be relied upon beyond that shorter period of time.

**For example:** A valuer may stipulate that a valuation for lending purposes cannot be relied upon after the expiration of three (3) months from the date of the valuation. In these circumstances, the valuation should not be older than three (3) months as at the date of approval of the loan.

- (c) Portfolio Managers should review the currency of valuations when received and note the expiry date of the valuation in the Loan Submission.

## 2.2 **Active valuation monitoring**

- (a) As part of their portfolio management duties, portfolio managers should, on a regular basis, investigate market conditions factors by monitoring area valuations, conducting an internal valuation, inquiring with local real estate agents or valuers, and using third-party software to monitor market conditions such as real estate listing websites (REA Group websites and Domain Group) and RP Data (CoreLogic).
- (b) Valuations must also be obtained within two (2) months after the Lending Committee:
  - form a view that there is a likelihood that a decrease in the value of the security property may have caused a material breach of loan covenant; and
  - determines in its discretion for any other reason including a material change in the terms of the loan, including as to the amount, duration, or interest rate on renewal, or due to delay in any construction or development proposal.
- (c) Furthermore, valuations must be obtained if a material change in the nature of the security occurs (such as changes to plans or government approval and tenancy profile when dealing with commercial property).

## 2.3 **Review of valuations**

Valuation reports must be reviewed by the relevant portfolio manager to ensure that the valuer has complied with Trilogy Funds' letter of instruction and that there are no unsatisfactory features.