Introduction

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms, we act to enhance competitiveness, support customers and facilitate innovation.

We welcome the opportunity to submit evidence to the Local Government and Communities Committee’s ongoing scrutiny of building regulations and fire safety in Scotland and of the implications for mortgage valuations.

Building regulations and fire safety in Scotland

We support the amendments that have been made to the technical handbooks explaining how to achieve the requirements of the Building (Scotland) Regulations 2014 which came into force on 1 October 2019. We do not have the expertise to comment on the specific measures being implemented but generally support steps that will improve and increase building safety.

The Grenfell Tower fire in 2017 led to an increased scrutiny of external wall systems on blocks of flats and other buildings, particularly those viewed as high-rise (those over 11 meters high under new regulations in Scotland). We recognise and support the steps that the Scottish Government has taken to address concerns about external wall systems and ensure that materials used on external walls in high rise buildings are non-combustible or of limited combustibility. This will provide clarity and assurance for mortgage lenders, homeowners and buyers.

Mortgage valuations

The valuation of individual properties is an important part of the mortgage process. Mortgage lenders have a regulatory requirement to ensure that a property they are lending on is valued at or less than market value by an independent valuer using a reliable standard, such as those developed by the International Valuation Standards Committee, the European Group of Valuers’ Associations or the Royal Institution of Chartered Surveyors (RICS).

In the UK most independent mortgage valuers will use the standard developed by RICS and in Scotland it will be carried out as part of the Home Report or separately later.

Lenders would expect valuers acting on their behalf to advise them on any factors revealed during the inspection that are likely to materially affect a property’s value and highlight any serious disrepair or potential hazards. Lenders would also expect valuers to draw attention to any potential maintenance costs that a homeowner may have to contribute to which could affect the value of the property.
It would generally be expected that serious concerns about fire safety or potential remediation work required to ensure fire safety would be included in a valuation report. If a valuer does not have the information needed to provide an accurate valuation for mortgage purposes, it may suggest that additional information or expert advice is sought.

We are working closely with RICS, the Building Societies Association and a wide range of other stakeholders to agree a new industry-wide process for the valuation of high-rise buildings for mortgage purposes in the UK. We aim to publish an update shortly. The aim of this process will be to ensure that valuers acting on behalf of lenders can provide a valuation of a property within a high rise building where there is uncertainty about the external wall system and concerns about fire safety or potential remediation costs. Discussions are taking place to ensure that the valuation practices in Scotland are reflected in any process agreed.