

*Full Length Research Paper*

# **Utilization of valuations for secured lending in Abuja, the federal capital city of Nigeria**

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**Utilization of secured lending valuations (SLV) by deposit money banks (DMBs) has not been sufficiently investigated in Abuja, Nigeria. Adequacy of the reports, factors influencing their use and how DMBs utilized them for loans were examined. Primary data collected from Estate Valuation (ESV) firms and DMBs were analyzed. Although the study showed that substantial portions of the report were adequate, crucial aspects such as valuation methods and value-opinions were not satisfactorily prepared. It also indicated that the poor perception of DMBs on valuation reports was the most critical factor that influenced their use. Value opinion, considered inadequate, was however sufficiently utilized. This inconsistency could lead to mortgage valuation failure in the city. The study recommends that valuation regulators should mandate ESVs to acquire periodic contemporary skills before their licenses are renewed. Lending regulators should similarly ensure that SLVs are processed by retained ESVs before utilization.**

**Key words:** Utilization, valuations, secured lending, Abuja, Nigeria.

## **INTRODUCTION**

One of the essential roles of deposit money banks (DMBs) in Nigeria is the provision of financial support through secured lending to businesses that operate in the economy. Secured lending by DMBs is regulated by the Central Bank of Nigeria (CBN) and moderated within the framework of the CBN Prudential Guidelines for DMBs (2010). The guidelines require the banks to demand for suitable collaterals which would be valued by independent estate surveyors and valuers (ESVs) during loan underwriting process. The regulations also mandate the ESVs to appropriately prepare the SLV reports for proper utilization by the DMBs in order to prevent mortgage flaws and valuation failure.

Activities of DMBs on how they utilize secured lending valuations (SLV) reports in Northern Nigeria particularly in Abuja, the federal capital city of Nigeria have not been adequately investigated in order to ascertain whether or not DMBs contribute to mortgage valuation failure. On the basis of the foregoing, a study on how DMBs currently utilize valuation reports for loan underwriting in Abuja with a view to providing information that could reduce lending risk in the city has become imperative.

The study therefore aims to assess the adequacy of secured lending valuations prepared by practicing ESV firms in Abuja, examines the factors that influence the use of the reports for secured loans, and investigates how

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DMBs utilize the reports for loan underwriting in the city.

## LITERATURE REVIEW

One of the critical needs of DMBs in secured lending valuation reports is the opinion of value. This opinion consists of market value (MV) and forced sale value (FSV). Some DMBs however require rental value (RV) in addition to MV and FSV (Babatunde, 2011; 2017).

Aluko (2004, 2007), Ogunba (2004), Oluwunmi et al. (2011, 2013), Ishaya et al. (2012) and Adegoke et al. (2013) were some of the studies that investigated the needs and satisfaction of DMBs in SLV reports in Nigeria. They held divergent views on the appropriateness of the reports. Majority of them discussed the bases, methods, information contents and the opinions of value. Contemporary items of SLV reports in IVSC (2017) were however not sufficiently examined in the studies. Similarly, the scholars did not satisfactorily conduct cross-investigation of both the lender and the valuer in order to adequately authenticate the appropriateness of the reports.

The use of valuation reports by DMBs for secured lending is premised on some factors. These comprised insider abuse and poor corporate governance, weak lending regulatory framework, customer's pressure and influence on the lender, lack of adequate awareness of the content of valuation report needed for lending, mode of commissioning of valuation brief, perception of the lenders that SLV reports are unreliable and lack of suitable valuation verification mechanism (Olokoyo, 2011; Badulescu, 2011; Ayedun et al., 2011, 2014; Ishaya et al., 2012; Achu, 2013). As cogent as these factors might be, there is need for more recent studies that will present a much more updated position.

Studies that investigated utilization of valuation reports by DMBs for secured loan underwriting in Nigeria were few. Oluwunmi et al. (2011) examined clients' satisfaction with SLV reports and concluded that 62% of the DMBs were satisfied with SLV reports and consequently utilized them. However, Oluwunmi et al. (2013), Oyedokun et al. (2013), and Babawale and Alabi (2013) queried the poor loan evaluation process of DMBs without adequately addressing the issue of valuation utilization. Babatunde (2017) however reported that the extent of utilization of SLV reports by DMBs had not been sufficiently examined in Nigeria. If valuation failure is intended to be reduced during secured lending process, there is need to investigate all the stakeholders particularly the DMBs on how they utilize valuation reports in order to find out whether or not they contribute to it.

## METHODOLOGY

Abuja, the capital city of Nigeria is the study area. There are 19 No DMBs and 109 No firms of ESVs that operated in the city. The list of the DMBs that operated therein was obtained from the CBN

website and confirmed at the CBN head office in the city. The list of the practicing ESV firms in the city was obtained from the NIESV Online Directory (2018) and correlated with the Abuja Branch Directory. All the sampled DMBs and ESV firms were selected for survey. Out of 19 DMBs surveyed 15 (or 78.95%) of them responded. 68 No ESV firms (or 62.39%) returned their completed questionnaire. Descriptive and inferential statistics were the tools of analysis. The descriptive statistics adopted were the Valuation Adequacy Index and Valuation Utilization Index while the inferential one was the Spearman Correlation Coefficient.

Valuation utilization index (VUI) was defined as  $VUI = \frac{\sum x/N}{An}$ ,

where  $\sum x$  was the aggregate weighted score of the group;  $N$  was the number of members of the group;  $n$  was the number of variable under consideration and  $A$  was the maximum score obtainable.

Note that  $0 \leq \frac{\sum x}{An} \leq 1$ . Since five-point Likert Scale is designed to measure the perception of the respondents with never utilize = 1 point; rarely utilize = 2 points; occasionally utilize = 3 points; frequently utilize = 4 points; and always utilize = 5 points, a deposit money bank must score 4/5 or 80% before it could be said to have adequately utilized a valuation report. This implies that only VUI which lies between 0.80 and 1.0 is adequate. Similar principle was adopted in defining the valuation adequacy index (VAI) also applied in the study.

## RESULTS

### Adequacy of secured lending valuation reports

The needs and satisfaction of DMBs could only be met where the contents and substance of the valuation reports comply with the IVSC (2017) standards. The ESV firms were therefore asked to state the items of content of valuation report which "they never include (NI); rarely include (RI); occasionally include (OI); frequently include (FI); and always include (AI)." The contents of SLV reports considered adequate and reliable by DMBs were also surveyed and analyzed. They were required to state the contents "that were never reliable (NR); rarely reliable (RR); occasionally reliable (OR); frequently reliable (FR); and always reliable (AR)". The weighted and mean scores of the two groups were analyzed and later ranked. The valuation adequacy index (VAI) of both the ESV firms and the DMBs were also determined.

The Spearman Correlation Coefficient of the opinions of both the ESV firms and DMBs on valuation adequacy of the valuers' reports was considered in order to assess the relationship between the opinions of the two groups. The result of the analysis is shown in Table 1. In Table 1,  $ms_v$  represented the mean score of valuation items included in ESVs' reports, while  $ms_d$  indicated the mean score of ESVs' report content considered reliable by the DMBs. In addition,  $rk_v$  and  $rk_d$  signified the ranking of ESVs' and DMBs' mean scores, respectively.

Findings in Table 1 showed that the ESVs considered purpose and basis of valuation as the most adequate valuation content while DMBs perceived affirmation with

**Table 1.** Analysis of adequacy of SLV contents from ESV firms' & DMBs' viewpoints.

Valuation report content	$\overline{ms}_v$	$rk_v$	$ms_d$	$rk_d$	$d_1$	$d_2$
Description of location and neighborhood analysis of the property being valued	4.72	5	4.13	5	0	0
Purpose and the basis of the valuation including type and definition of value concepts	4.87	1	4.40	2	-1	1
The identity, site description and tenure of the property interest(s) being valued	4.79	3	4.27	3	0	0
Market data analysis including trended sales prices and market rents of similar properties in the neighborhood and sources of data verification	3.87	10	3.67	10	0	0
Scope and extent of the work used to develop the valuation including attached documents that could support the validity of the report	4.62	7	3.87	8	-1	1
The calculations / formulae and the method adopted in the determination of the values	3.97	9	3.73	9	0	0
Opinion of market value (MV) and the forced sales value (FSV)	3.40	11	3.40	11	0	0
Any assumptions and limiting conditions; and any special, unusual, or extraordinary assumptions;	4.57	8	4.00	7	1	-1
A compliance statement that the valuation has been performed in accordance with relevant valuation standards and any required disclosures	4.75	4	4.20	4	0	0
Valuer's identification, qualifications and certification	4.63	6	4.07	6	0	0
Affirmation to statement of standard with seal and stamp of regulatory authority	4.82	2	4.47	1	1	-1
Valuation adequacy index	0.89	10	0.80	3	8	-

$rs = 1 - \frac{6\sum d^2}{n(n^2 - 1)} = 1 - \frac{24}{1320} = 0.9818$ .

Source: Author's Survey and Analysis (2018).

**Table 2.** Ranks of the factors influencing utilization of valuation reports for loans.

Factor	Ranks / Frequency of Ranks									Mean Score	Rank
	8	7	6	5	4	3	2	1			
Insider abuse and poor corporate governance	2	3	2	2	1	1	2	2	4.8	3	
Weak lending regulatory framework.	1	1	3	3	2	3	1	1	4.33	5	
Lack of adequate awareness of the content need of mortgage valuation report	1	0	1	1	5	4	0	3	3.60	8	
Mode of commissioning of valuation brief	0	3	1	1	3	3	3	1	4.00	6	
Non availability of investment property database (IPD) in the study area	3	1	3	1	2	1	2	1	4.67	2	
Inadequate interaction of ESVARBON and NIESV with the Bankers' Committee	0	1	2	5	2	1	0	4	3.90	7	
Perception of DMBs that SLV is unreliable	2	2	3	2	1	1	3	1	4.87	1	
Borrower's influence on the bankers	0	4	3	1	1	2	2	2	4.47	4	

Source: Author's Survey and Analysis (2018).

seal and stamps as the most satisfactory item. Both of them considered opinion of values and data analysis as the most inadequate content of the reports.

**Factors that influence the use of valuation reports for secured loans**

Table 2 shows the factors that influenced the use

of valuation reports for secured lending. The DMBs ranked them in the order of their influence during valuation utilization.

Lenders' perception on valuation reports,

**Table 3.** Analysis of valuation utilization by DMBs and ESVs' perception on how DMBs utilized SLV reports.

Valuation report content	ms <sub>d</sub>	rk <sub>d</sub>	ms <sub>v</sub>	rk <sub>v</sub>	d <sub>d</sub>	d <sub>v</sub>
Location description (text, coordinates and graphics)	4.33	4	4.54	5	-1	1
Neighborhood description (text, coordinates and graphics)	4.07	7	3.57	12	-5	5
Physical characteristics of property	4.20	5	4.57	4	1	-1
Legal characteristics of property	4.60	1	4.60	3	-2	2
Market data (source of data and date of transactions)	3.53	12	3.75	11	1	-1
Basis of valuation (including value concepts)	3.67	11	4.26	7	4	-4
Valuation approach ,methods, techniques and models	3.73	10	4.02	8	2	-2
Trended market rents and sales of similar properties in both the location and the neighborhood	4.00	8	3.77	10	-2	2
Opinion of Market and Forced Sale Values	4.47	2	4.85	1	1	-1
Assumptions and Limitations	3.93	9	3.99	9	0	0
Valuer's identification, qualifications and certification	4.13	6	4.44	6	0	0
Affirmation to statement of standards with seal and stamp of regulatory authority	4.40	3	4.62	2	1	-1

VUI = 0.8176 (DMBs); VUI = 0.8488 (ESV);  $rs = 1 - \frac{6\sum d^2}{n(n^2 - 1)} = 1 - 0.2028 = 0.7972$ .

Source: Author's Survey and Analysis (2018).

non-availability of IPD and insider abuse and poor corporate governance were the most highly considered factors for utilization of valuation reports by DMBs. Lack of awareness of content-need of valuation reports and inadequate interaction with ESVARBON and NIESV by the bankers were the least considered factors by the DMBs during utilization of valuation reports for lending.

#### Utilization of valuation reports for secured lending

The analysis on how DMBs utilized SLV reports and how ESV firms perceived the use of SLV reports are shown in Table 3.

The use of SLV report contents by DMBs was measured by a five level Likert Scale defined as "never utilize (NU), rarely utilize (RU), occasionally utilize (OU), frequently (FU) and always utilize (AU).

The mean score of SLV content utilized by

DMBs in ESVs' reports was represented by ms<sub>d</sub> while the mean score of ESVs' perception of the use of SLV reports by DMBs was indicated as ms<sub>v</sub>. Also, the ranking of DMBs' mean scores was depicted as rk<sub>d</sub> while the ranking of ESVs' mean scores was represented by rk<sub>v</sub>. The difference in ranks of DMB's and ESV firms' scores was depicted by d<sub>d</sub> and d<sub>v</sub>, respectively.

The result showed that legal title of property and opinion of MVs and FSVs were the most frequently utilized items by DMBs as evidenced by their mean scores of 4.60 and 4.47, respectively. The items least and sparingly utilized were market data analysis and valuation basis, methods and calculation of values. Their mean scores were 3.53 and 3.67, respectively. With a VUI of 0.8176, the survey implied that the reports were generally utilized.

Analysis of the perception of the ESV firms indicated that opinion of MVs and FSVs and affirmation to statement of standards with seal and stamp of regulatory authority were the most

frequently utilized by the banks as evidenced by their mean scores of 4.85 and 4.62, respectively. The items that were least and sparingly utilized were neighbourhood description, market data analysis and trend rental and market values. Their mean scores were 3.57, 3.75 and 3.77, respectively. With a valuation utilization index of 0.8488 the survey implied that the ESVs perceived that their reports were generally put to an 84.88% degree of use by the DMBs.

#### DISCUSSION

Before a secured lending valuation report could be applied to manage lending risk, its content must be accurate and reliable. Such report should also be appropriately utilized. The findings made in this study, on the adequacy of SLV reports and their utilization by DMBs, have warranted the following discussion.

Firstly, both the ESV firms and the DMBs

considered the mortgage valuation reports as adequate as evidenced from their valuation adequacy index of 89.10 and 80.38%, respectively. Three of the most critical contents of SLV namely market data analysis, valuation basis, methods and computations and opinion of values which were the most critical needs in SLV for lending purpose were neither adequately included by ESVs in their reports nor considered reliable by the DMBs. Other finding that could not make the reports to be adequate was the factor of non-availability of investment property databank. Where the input data are not openly available to valuers, the output will not be acceptable and verifiable.

Secondly, the aggregate opinions of the DMBs and the ESV firms that the utilization of SLV reports was satisfactory seemed not to be valid. Contrary to the respondents' opinions, lack of appropriate use of valuation basis, methods and trended rental and sale values of similar properties within the location actually showed that the reports were not appropriately utilized. Another indication that the reports might not have been utilized adequately was the strong factor of perception of the DMBs that the valuers' reports were not reliable.

Thirdly, the result of the Spearman rank correlation technique used to analyze the opinions of both the DMBs and the ESV firms on valuation utilization showed a positive relationship between their opinion and perception, respectively. This indicated that both groups of respondent summarily agreed that the reports were adequately utilized. The continued use of the value opinions despite their inaccuracy could lead to valuation failure.

## Conclusion

The result obtained from this study has warranted the articulation of the following conclusions.

That the SLV reports prepared by ESV firms could not have been accurate as a result of the absence of IPD and lack of inclusion of critical items such as valuation methodologies and value opinions in the reports.

Also, the reports could not have been appropriately utilized since the DMBs perceived them as unreliable for lending purposes. Similarly, the continued utilization of valuation report for lending by DMBs could have arisen from the fact that only NIESV members are statutorily allowed to carry out property asset valuation in Nigeria.

In order to make SLV reports acceptably utilized, both NIESV and ESVARBON should seek for higher accuracy of value-opinions through the development of IPD and the assessment of ESVs on contemporary skills and competence before their licenses are renewed annually. FSV opinions should also be made to range between +5 and -5% of foreclosure sale prices. In addition, the CBN, NDIC, Bankers Committee, NIESV and ESVARBON should collaborate to organize seasonal seminars for credit officers and practicing ESVs on standards approved by IVSC (2017). The communiqué of such seminars should be

hosted on the websites of CBN, NDIC, Bankers Committee, NIESV and ESVARBON for the use of the DMBs and ESVs. DMBs should either engage internal registered ESVs or independent practicing of ESV firms to analyze and qualify valuation reports before their utilization.

## CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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