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SCOTTISH CONSUMER COUNCIL

BUILDING SOCIETIES – VALUATIONS & SURVEYS

INTRODUCTION

Following discussion of the Report of the Royal Commission on Legal Services in Scotland, Cmd, 7846, May 1980, which found that "the facet of house purchase which attracted the greatest criticism concerned the valuation surveys instructed by building societies", the Scottish Consumer Council asked its Legal Advisory Group to carry out further investigation of the problems faced by consumers with regard to valuations and surveys.

There appear to be two main problems in this area:

(a) lack of information
(b) the cost of valuations and surveys under the Scottish system of house purchase.

Anyone who hopes to get building society finance to help buy a house must pay for a valuation of the property carried out on the instructions of the building society. This is to meet the legal requirement that the society must be satisfied as to the security of its investment. Until recently it was the policy of all building societies not to make this valuation report available to buyers (though it must be said that in Scotland at least it was usual for the societies to give at least a verbal indication of the report). If a buyer wished to have his own valuation of the property this would have to be instructed and paid for separately.

What many buyers are not aware of is that a valuation report is not the same as a full survey into the structure of the property which would reveal any major defects, and is no guarantee as to its condition. Such surveys are substantially more expensive: a valuation report for a house valued at £20,000 would cost approximately £40.00; a structural survey would cost £90.00. It is hardly surprising therefore that according to the chief surveyor of the Abbey National Building Society checks have revealed that fewer than 10% of home buyers have their own independent surveys. ('Times' 4/8/81).
The Scottish system of house purchase exacerbates the cost problem, since the buyer must have the property valued for his building society and for himself before he makes a bid in competition with other bids. It is possible for an intending buyer to have to make several bids for different properties before he is finally successful.

The Scottish system whereby potential buyers make bids in competition with one another also means that there are often several surveys carried out by different surveyors on the one property.

Since one of the main sources of information to the consumer on valuations and surveys are the building societies themselves it was decided to investigate the policies and practices of the societies operating in Scotland.

August 1981.
1. **THE INVESTIGATION**

1.1 A circular letter was sent in April 1981 to 30 building societies with offices in Scotland. Three questions were asked:

(1) Does your society make valuation reports available to clients? If not, could you please give a reason for your policy?

(2) What help and advice do you give clients on the question of having a structural survey carried out? Is it the normal practice to advise a client to commission a structural survey? Has your society made any arrangements whereby clients may combine a structural survey with the valuation report required by yourselves, with a consequent reduction in total cost? Is such an arrangement frequently used?

(3) What views does the Society have on the following recommendation of the Royal Commission on Legal Services:

"Building Societies should adopt standard specifications for valuations, appoint a common panel of valuers and instruct all valuations through a common agency".

1.2 Replies have been received from 20 societies. One of these, the Kilmarnock Building Society declined to give a reply on the ground that there was no criticism from applicants as to the amount of information made available to them. The manager considered that a small Society such as his was able to give personal attention to all applicants.

1.3 Initially there was a disappointing low response rate from societies which are 'Scottish' rather than branches of national societies. Nine Scottish societies were identified, of which one, as already noted, refused to comment, and one replied to one question only. Reminders were sent to the others, three of which, the Dunfermline, the Paisley and the Edinburgh have now merged. We have now received replies of some kind from five of the seven Scottish societies. In the following analysis of the results the Scottish societies' replies are distinguished.
2. VALUATION REPORTS

2.1 The Abbey National was the first Building Society to make valuation reports available to all applicants for a loan. Early in 1981 the Halifax announced its intention to do likewise. At the time of replying to our letter (April 1981) the Nationwide and the Britannia had also begun to do this. A further three, the Leicester, the Huddersfield and the Bradford and the Alliance, had plans to do likewise within a couple of months. Both the Anglia and the Provincial had taken decisions in principle to make reports available and were finalising details. The Provincial were first planning to improve the content of the report "so that it is more worthwhile to the applicant". The remaining 5 national societies who replied (the Burnley, the Cheltenham and Gloucester, the Bradford and Bingley, the Northern Rock and the Woolwich) all had their policy on this under review at the time of writing.

2.2 Among the Scottish societies, the Board of the Dunfermline Building Society had taken a decision in principle to make valuation reports available to successful applicants. The Musselburgh Society currently had its policy under review, as had the Scottish Building Society. The Strathclyde Building Society informed us that it did not make valuation reports available and clearly had no plans to do so:

"The reason our society does not do this is that it would be most misleading to applicants if we did so as the brief form of report we receive from the surveyor does not go into detail about necessary repairs, as would be done in a survey report obtained from a surveyor. The purpose of the report is merely to let our Society know if the property is good security for the amount of loan applied for."
(Strathclyde Building Society).
2.3 Progress on this has therefore been rapid since the Abbey National announced its new policy. At the time that the Hughes Commission was investigating the issue (around 1978) the Building Societies and the Royal Institution of Chartered Surveyors stated that it would be extremely difficult to make this change, and that if valuation reports were made available the valuation fee might have to rise. Now, in the words of the General Manager of the Scottish Building Society,

"the competitive pressure is to promptly disclose the whole report."

3. **STRUCTURAL SURVEYS**

3.1 The thirteen national societies and three Scottish societies who replied on this point all stated that they informed applicants that the valuation was not a structural survey, and that it might be in the client's interests to have a survey carried out. Information on this point was contained on the application form and in the information booklet produced by several societies. All have an agreement whereby the Society's valuer can be requested to do a structural survey and valuation. The total cost of this will be lower than it would be if the applicant commissioned a structural survey quite separately.

3.2 Several societies commented, however, that this facility was rarely used. The Bradford and Bingley commented that they did not officially encourage or discourage the seeking of a structural survey, because of possible legal implications. Presumably they feared that they might be liable if they wrongly advised someone that a structural survey was unnecessary.

4. **ROYAL COMMISSION RECOMMENDATION**

4.1 Eight societies refrained from giving views on this, two stating that it was a matter for consideration by the Building Societies Association (BSA). Only three societies welcomed the recommendation in any way. The Abbey National said that it would welcome a standard approach to valuations if one could be worked out by the BSA. The Alliance said
that it would give "serious consideration" to any detailed proposals brought forward by the BSA. The Northern Rock stated that it would participate in such a scheme if it were introduced.

4.2 The remaining societies were not in favour of the recommendation. The Anglia, the Bradford and Bingley and the Woolwich pointed out that in law the Director of the Society is required to be satisfied as to the security of the Society's investment. For this reason the Society would want to have control over the valuer and be satisfied as to the accuracy of the valuation.

The Strathclyde Building Society gave a similar view:

"Like most Societies we prefer to deal with firms known to us and who give us prompt and satisfactory service. In the Glasgow Area alone there may be over 40 firms of Valuers, all with various standards and opinions of what kind of property is suitable for loan purposes. It could become very difficult to obtain valuation reports through such an agency with any speed and we would no longer have the confidence that the reports would be of the quality we obtain under the present system.

We consider the most important part of our function is to protect the monies invested with us by our investors and it is of paramount importance that we work closely with the firms of surveyors who are sending us their reports."

The Dunfermline Building Society also mentioned that they could obtain a same-day valuation from their surveyors, and considered that a common panel of valuers would be unable to act sufficiently quickly.

Two societies observed that common valuations would become rapidly outdated.
A further problem is that some societies employ valuers on their staff, and these jobs would be put in jeopardy if this recommendation were to be implemented.

5. CONCLUSIONS ON THE SURVEY

5.1 It is likely that all the large societies will soon be making valuation reports available to applicants. The fact that the obstacles to doing this have proved to be less difficult than was previously maintained may make us more sceptical of building society claims about "difficulties" in relation to other changes. Change seems to be slower among the Scottish societies, but seems to be coming nevertheless.

5.2 It seems that societies are beginning to provide more information to applicants about the difference between surveys and valuations. Most of the larger societies can offer a 'reduced rate' for a combined valuation and survey. This is not widely used, but this may be because the arrangement has been poorly publicised until recently.

5.3 The Societies appear to be resistant to the idea that only one valuation need be carried out on any property. Some of the objections have little foundation. For instance in the majority of house sales in Scotland a relatively short time elapses between advertisement and sale, and thus the several valuations are commissioned within days of each other. Even at the height of a price boom, valuations should not change in that length of time. Obviously there are exceptions and some properties remain on the market for a lengthy period. Here, to carry out a new valuation would seem reasonable. Would the market value of 'hard-to-sell' properties change rapidly?

It seems that the Societies have the English System of house purchase in mind, whereby one prospective purchaser enters into negotiations, a valuation is carried out, and perhaps some weeks later the prospective purchaser drops out. Then the whole process begins again. In Scotland, however, it is particularly likely that several valuations are carried out within a very short space of time.
Another objection raised is that the various societies have differing criteria as to the valuation to be given to a property for the purpose of the security of their investment. This in itself raises a serious question for the consumer about the objective nature of the valuation for which they pay. This affects both buyers and sellers, since the price paid for the house is often close to the valuation, not least because this is usually the maximum on which the building society bases its advance (e.g. promising 80% of the 'valuation' - if the applicant wishes to offer more he will have to find the money from his own resources or some other source of finance).

Finally the issue of speed was raised. Once a proper 'panel' system was established there is little reason why a speedy valuation should not be carried out.

6. SOLVING THE PROBLEM OF LACK OF INFORMATION

6.1 Within a few months it seems likely that valuations will be made generally available. The Scottish Building Societies Association is in favour of the principle of disclosing valuation reports.

6.2 Most building societies inform applicants of the difference between a valuation and a survey, although where this is done on the application form applicants may not take it in fully. Several societies produce their own booklets about house purchase which usually include information about valuations and surveys. More of such information in an easy-to-read form would be desirable. We have not, as yet, attempted to acquire and analyse copies of information material supplied by the societies.

6.3 The facility to reduce the total cost of a survey-plus-valuation by using the society's valuer does not appear to have been widely known about in the past, but again this appears to be changing.
6.4 In addition to more and better information from building societies, there is also a need for consumers to be better informed about the services of surveyors - what types of survey are available; what can be expected from each; what the cost is likely to be. This is perhaps something which could be done by the Scottish Branch of the Royal Institute of Chartered Surveyors (RICS).

6.5 Both building societies and surveyors should attempt to advise the public as to when a "survey" is necessary.

7. COST

7.1 Many purchasers, even when better informed about valuations and surveys, will be reluctant to incur the extra cost of a survey. There are two initiatives currently underway which may reduce the cost of a survey. The Abbey National Building Society is planning to offer a 'Report on Condition' plus 'Valuation' to applicants. The 'Report on Condition' is described as a 'structural appraisal' rather than a 'structural survey'. It is suggested that this may cost £57.50 for a £20,000 house, plus a fee for the valuation. It is not yet clear whether a full 'valuation fee' would be payable. Full details will not be released until the scheme is launched in the summer.

7.2 From 24th August 1981 the Royal Institute of Chartered Surveyors (RICS) is offering a "House Buyers Report and Valuation" to purchasers in Scotland (a similar scheme has been in operation in England and Wales from 1st June 1981).

"The Report is not a full Structural Survey but is sufficient to give a general opinion on the quality and condition of the fabric of the house".

(RICS - Scottish Branch).
It is hoped that the new report system will be acceptable to most building societies (though buyers are to be advised to check before going ahead). There is a standard table of fees depending on the age and cost of the house, so buyers will know basically what they are going to be charged e.g. the cost for a modern house of £20,000 will be £75, for a pre-war house of £40,000 - £115, with VAT and travelling expenses on top.

8. MULTIPLE VALUATIONS AND MULTIPLE SURVEYS

8.1 Recommendation 9.10 of the Hughes Report would eliminate the problem of the multiple valuation. The cost could be paid by the successful purchaser, or shared among all the building societies who could charge applicants a small fee. This recommendation is not popular with the societies, although some of their objections are less than convincing.

8.2 Purchasers choosing to commission a structural survey (or, when available, one of the new "structural appraisals") would continue to be liable for several separate surveys if their bids were unsuccessful. Conceivably the 'common panel of valuers' could carry out 'common surveys'. This would effectively exclude any surveyors not on the 'common panel'. The Hughes Commission considered the idea that a seller might commission a structural survey, to be made available to all prospective purchasers, to be paid for by the successful purchaser. Sellers could do this voluntarily (and it is occasionally done now) but many will be reluctant to provide information which might reduce the potential selling price while most other sellers did not do this. It would probably be necessary to make this a legal requirement.

8.3. A spokesman for the Royal Institution of Chartered Surveyors - Scottish Branch has recently agreed that the present system imposes unwanted expense on the whole process of house purchase. The RICS has stated that it would be happy to take part in any working party which might be set up by the Secretary of State for Scotland to look into the whole system of house purchase in Scotland.
9. **AN EXPERT COMMITTEE**

9.1 These matters are complex, and it is difficult for the ordinary person to find a suitable solution. On the other hand it cannot be left entirely to the professionals. The Hughes Report proposed that an expert committee be set up to look into:

(1) The difficulties involved in making society valuation reports available to potential borrowers (R.9.11).

(2) Whether the difficulties in requiring sellers to provide a survey report can be overcome.

(3) Whether sellers should be obliged by statute to provide certain information to purchasers. (R.9.13).

Making valuation reports available no longer requires investigation. We have identified, however, several areas of consumer interest which do require investigation:

(1) Proposals to establish a common panel of valuers. Given the views expressed by building societies, this may require greater investigation.

(2) Having the seller provide a structural survey.

(3) Are structural surveys a necessary protection for the consumer? (Although this may become academic if it were decided that the seller should provide a survey.)

In our response to the Hughes Report we supported the proposal for an expert committee with consumer representation. Our present investigation which highlights some of the problems facing the consumer in the area of valuations and surveys reinforces our view that such a committee should be set up as soon as possible.
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