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## Home Loan Borrowers Bear the Consequences of Conservative Property Valuations

In home loan applications, lenders commission an independent valuer to appraise the borrower's property. The valuation of the property is based on the state of the property as well as evidence of recent sales of similar properties in the area.

In recent months, direct lender MyRate Home Loans has seen a number of valuations coming in below borrower expectations, and in some cases, they even come in lower than the purchase price paid only weeks earlier.

According to MyRate, a valuation figure will affect the Loan to Value Ratio (the loan amount divided by the property amount) and this in turn will determine whether the borrower pays Lenders Mortgage Insurance. Lenders usually require Lenders Mortgage Insurance to be paid where the Loan to Value Ratio exceeds 80 per cent. It protects them if the borrower defaults and the full loan amount cannot be recouped from selling the property.

The "value" of the property for the purposes of the home loan, is either the valuers valuation figure, or in the case of purchases (as opposed to refinanced properties), the property purchase price, whichever is lower, MyRate said.

"Let's take an example of a borrower who has just purchased a home for \$500,000, has a deposit of \$105,000 and whose home gets valued at only \$480,000.

"If we take into account the property purchase price, the LVR would be 79 per cent and the borrower would not need to pay LMI.

"However if the valuation figure prevails, the LVR would be 82 per cent, which means that the borrower will have to pay Lenders Mortgage Insurance which would be approximately an extra \$3,400," the company explained.

MyRate has warned that in other cases, a lower valuation figure can spoil a deal altogether where it might compromise the home loan eligibility of borrowers.

"A low valuation figure may increase the LVR to above a level that a lender is willing to accept. ... Typically lenders will not lend on an LVR of more than 95 per cent," it added.