

Critical Factors Influencing the Reliability of Mortgage Valuations: A Qualitative Review of Literature

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Abstract

This study was done to pinpoint the critical factors that impact on the reliability of the mortgage valuation in the real estate sector, an area that has seen dearth of comprehensive analysis. The examination was done by searching for peer-reviewed articles published in index journals between 2010 - 2024. The study found four factors such as data, experience of the valuer, client influence and valuation standards. As a contribution to the field, it is recommended that authorities consider enhancing improved data management strategies, providing augmented professional training for the valuers, introducing better client management strategies, and timely upgrading valuation guidelines and standards to maintain and enhance the reliability of the mortgage valuation.

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Keywords: Market Value; Mortgage Valuation; Valuation Reliability; Valuation accuracy and inaccuracy

Introduction

In the modern era, the world market has become more competitive because of globalization. Hence, valuation practitioners are requested to a high standard of practice (Aliyu et al., 2018). However, numerous concerns about the reliability of mortgage valuation in the real estate sector throughout the globe. Mortgage valuation holds significant importance in financial and real estate domains for aiding accurate lending decisions, selecting the right investment tactics, and following risk management practices. The most important financial and marketing decisions depend on the mortgage valuations. For instance, purchasing and selling real estate, expropriation, tax matters, mortgage underwriting, the renewals of insurance policies, etc. (Asres, 2023). Although mortgage valuation plays a critical role as a fundamental requirement for many business and market decisions, reliability has become a significant concern (Oyedeji et al., 2016). Similar situation is observed in Sri Lanka because there are criticisms on the reliability of mortgage valuation reports. Although several previous scholarly works have explored factors contributing to ensuring the accuracy of mortgage valuation in the global context, there is a shortage of comprehensive analysis to integrate those findings to identify common factors that impact on reliability of mortgage valuation (Adegoke et al., 2014, Aliyu et al. 2018, and Caleb et al., 2018). In addition to that there is not any published scholarly work found that has addressed to identify what factors contribute on the doubts of reliability of mortgage valuation reports in Sri Lanka. Thus, this research focus to fulfil the said vacuum in the field.

The objective of the study

To identify the critical factors that influence on the reliability of mortgage valuation through a systematic literature review

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Literature Review

Reliability of the valuation has become a significant concern among mortgage valuation practitioners in the real estate industry during the past decades. The discussion regarding the reliability of valuation has continually garnered interest from scholars, researchers, practitioners, and stakeholders who play a significant role in the real estate sector. The concept of valuation reliability is closely tied to the concept of both valuation accuracy and inaccuracy (Oyededeji et al., 2016), with numerous factors influencing these outcomes across different contexts. These factors can be identified under a few main themes.

Theme 1 (Data Access and Quality); Aliyu et al. (2018) identified difficulties in accessing relevant data and inadequate market data as critical factors affecting valuation accuracy. Asres (2023) and Muhammad et al. (2023) also highlighted the lack of adequate and reliable market data as a primary concern in mortgage valuation. Nwosu (2019) emphasized problems related to relevant and inadequate data as a significant factor influencing valuation inaccuracy. In 2015, Effiong identified the absence of a data bank for comparable evidence such as sales, rent, and data regarding yield as critical factors that impact the reliability of mortgage valuation (Effiong, 2015). According to Caleb et al., the identified factors were the absence of relevant market data.

Theme 2 (Valuation Methodologies); Aliyu et al. (2018) and Muhammad et al. (2023) pointed out that the use of inappropriate valuation methods is a significant factor affecting accuracy. Nwosu (2019) and Kayode Babawale and Omirin (2012) also discussed how the choice of valuation techniques impacts the reliability of the valuation.

Theme 3 (Valuer's Expertise and Experience); Kayode Babawale and Omirin (2012) highlighted that the valuer's knowledge, experience, and exposure are crucial for accurate valuations. Factors such as the valuer's academic qualifications, years of experience, and familiarity with the market were identified as important. Aliyu et al. (2018) and Muhammad et al. (2023) similarly stressed the role of the valuer's skills and experience in influencing valuation reliability.

Theme 4 (Client Influence and Expectations); Aliyu et al. (2018) and Muhammad et al. (2023) noted that client pressure and influence affect the accuracy of valuations. Adegoke et al. (2014) identified client needs and expectations as factors that contribute to valuation discrepancies.

Theme 5 (Regulatory and Professional Standards); Aliyu et al. (2018) highlighted the absence of national valuation standards and outdated guidance notes as factors impacting valuation reliability. Adegoke et al. (2014) and Muhammad et al. (2023) also pointed to outdated standards and lack of comprehensive guidelines as contributing to valuation inaccuracies. Caleb et al., (2018) found the ineffectiveness of the regular framework, the lack of commitment by regulatory bodies to enforce disciplinary action against indicted valuers as a deterrent to others, lack of proper and relevant academic training a lack of adherence to the valuation standard manual and integrity as barriers to maintaining the reliability of the mortgage valuation.

Theme 6 (Market Characteristics and Other Factors); Asres (2023) discussed the imperfection of the property market as a significant factor affecting valuation accuracy. Nwosu (2019) mentioned factors such as the reverse yield gap, valuation irrationality, and the location of the firm. In 2014, Adegoke et al. identified seven factors that impact the reliability of the mortgage valuation. Those include differences between valuation and market selling price, margin of error, absence of relevant market data, client needs and expectations, outdated valuation guidance, dilemmas of guidelines and

professional conduct, absence of appropriate valuation standards, and encroachment of other professionals in valuation practices (Adegoke et al., 2014).

Those findings indicate that data and quality, valuation methodologies, valuer's expertise and experience, client influence and expectations, regulatory and professional standards and market characteristics, and other factors are crucial issues when practicing mortgage valuation in the real estate sector due to the reliability concerns.

Methods

Data for the study was collected employing a qualitative review of literature using Google Scholar. The search focused on key terms such as “reliability of mortgage valuation, accuracy of mortgage valuation, inaccuracy of mortgage valuation, and critical factors that impact the reliability of mortgage valuations. The search was limited to only peer-reviewed and indexed articles published from 2010 - 2024 and the concept of reliability of mortgage valuation. Subsequently, ten (10) articles were reviewed, which fulfil the abovementioned criteria.

The inclusion criteria for the qualitative review of the literature were;

- Articles titled on factors affecting the reliability of mortgage valuation.
- Articles focused on data analysis on valuation practices.
- Articles published in peer-reviewed journals.
- Articles written in English

The exclusion criteria for the qualitative review of the literature were;

- Articles focused on valuation topics, but not related to mortgage valuation in the real estate industry.
- Non-peer-reviewed articles, conference papers, and book chapters.
- Articles published before 2010.

When selecting the articles, a rigorous process was followed. For instance; in the initial search duplicate records were removed and the title and abstract of the remaining articles were reviewed to determine their relevance. Only articles meeting inclusion criteria were taken into account for full review. Finally, 10 articles were filtered due to their relevance to the subject area. The data extracted from the literature were analyzed as a qualitative literature review. The identified key factors were; Data access and quality, valuation methodologies, valuer expertise and experience, client influence and expectations, regulatory and professional standards and market characteristics, and other factors.

Results and Discussion

The data collected through the qualitative review of the literature review can be presented in Figure 1 through a word cloud analysis, to identify the factors frequently discussed and to identify what factors were mostly highlighted by the scholars

practitioners are addressed to follow improved data management strategies, provide augmented professional training for the valuers, introduce better client management strategies, and timely upgrade valuation guidelines and standards to maintain and enhance the reliability of the mortgage valuation. This effort will help to ensure a good reputation for valuation agencies and maintain their reliability in mortgage valuation. This study was limited to 10 peer-reviewed journal articles only. Hence, future researchers are requested to conduct a systematic literature review reviewing more articles to attain strong findings.

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