HOUSES OF THE OIREACHTAS

Volume 2

No. 13
Morning
No. 14
Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 13 Bealtaine 2015

Wednesday, 13 May 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

Mr. Liam Kelleher: It's a good question, Deputy. I'm not sure, as early as 2003, that anybody would have wanted to do anything differently. I think it is later on, 2006, that the contrarian voices were making up their statements, very much a minority, but nonetheless they were there, and we didn't pay the attention to them that we should have. That's one thing I would do differently. The other thing that I would certainly have learned from the whole period and subsequently, is just how essential the issue you were previously talking about, working capital, or was being talked about earlier, is to the construction industry. Really, you know, a certain level of credit, a certain level of working capital, is essential to the construction industry. There was too much of it in the period you're referring to, and then it disappeared, totally, and there was too little of it.

Deputy Michael McGrath: Thank you.

Chairman: Thank you very much. So with that said, if there is anything, Mr. Parlon, Mr. Kelleher, you would like to add further before I bring matters to a close, is there anything you'd like to add in conclusion, Mr. Parlon?

Mr. Tom Parlon: No, I appreciate the opportunity you have given us to explain and just, I'm glad I wasn't asked that question, Deputy, but if I was put back in my new role when I went in, to sort of stop the galloping horse that was there would have been an extremely difficult job. If I had to jump out in front of it, I probably would have been dumped out of the job very, very quickly. And just to give a final point, in terms of, at that time, 10,000 houses created a billion's worth of Exchequer return. It created 30,000 jobs and it accounted for a 1% increase in economic growth. So it was a massive cash cow, everyone thought it was brilliant, but clearly, it wasn't ... and we were a big part of that. Our industry has suffered very badly as a result of it, and likewise, the whole country has suffered, and individuals, so, you know, to have stopped it at the time ... clearly we all, and I am looking forward to the eventual ... decisions that you take, and recommendations, but, just to say, having thought about it long and hard, and the CIF, whatever the impression might have been, they're a very impressive, serious organisation with people that have been there for 20 and 30 years, a lot of experience, and a lot of integrity involved in the people. We look at that in terms ourselves and say, "What could we have done?"

It would have been bloody difficult to stop it, at that time, but clearly, you know, a company that's reliant on your customers having 100% mortgages, and we not knowing where the financing was coming, and a banking system that was reliant on a massive lot of short-term credit and giving long-term loans was a recipe for disaster, but I didn't have the scope to see that, I'm sorry to say, at the time.

Chairman: Thank you, Mr. Parlon. So with that said, I would like to thank Mr. Parlon and Mr. Kelleher for their participation today and for their engagement with the inquiry. I now formally excuse the witnesses and I propose that we suspend until, if we take a ten-minute break, returning at ten minutes after 12 p.m., where we will then hear from Mr. Patrick Davitt, chief executive of the Institute of Professional Auctioneers and Valuers. Is that agreed? Agreed.

Sitting suspended at 11.58 a.m. and resumed at 12.20 p.m.

Institute of Professional Auctioneers and Valuers - Mr. Patrick Davitt

Chairman: I now am proposing that we go back into public session. Is that agreed? Agreed. We now move on to session 2 of today's proceedings, which is a public hearing discussion with

Mr. Patrick Davitt, chief executive, Institute of Professional Auctioneers and Valuers. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off.

Today we continue our hearings with Mr. Patrick Davitt, chief executive, Institute of Professional Auctioneers and Valuers. Mr. Patrick Davitt has been chief executive of IPAV since May 2013. He has been a member of the IPAV since 1983, serving as president on two occasions. He was a member of the Auctioneering-Estate Agency Review Group in 2004 and is a member of the Property Services Regulatory Authority, established on a statutory authority basis on 3 April 2012.

Before hearing from Mr. Davitt, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given.

I would remind members and those present that there are currently criminal proceedings ongoing and that further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings.

Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and should not publish any of the documents so displayed.

The witness has been directed to attend the meeting of the Joint Committee of Inquiry into the Banking Crisis and you have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. So if I can now ask the clerk to administer the oath.

The following witness was sworn in by the Clerk to the Committee:

Mr. Patrick Davitt, Chief Executive Officer, Institute of Professional Auctioneers and Valuers.

Chairman: So, once again, Mr. Davitt, you're very welcome here this afternoon-----

Mr. Patrick Davitt: Thank you, Chairman.

Chairman: -----and if I can invite you to make your opening statement, please, Mr. Davitt.

Mr. Patrick Davitt: Thank you, Chairman, Deputies and Senators. The Institute of Professional Auctioneers and Valuers, IPAV, was established in 1971 as a representative professional body for qualified, licensed auctioneers, valuers and estate agents. IPAV is the only Irish representative body solely catering for the professional and educational requirements and needs of auctioneers and valuers and, in 2013, represented almost 800 members nationwide. IPAV has three categories of membership for practising auctioneers and valuers in Ireland which enables it to cater for the professional ... property professional, the certified valuer, the recognised valuer, REV, and this is through its association with TEGoVA, the European Group of Valuers Associations, using the blue book and the European valuation standards.

The institute is governed by a national council of 20 members from throughout the country. The institute is further supported by an executive council which consists of IPAV president, senior vice president, junior vice president and CEO. I am the chief executive officer of IPAV, appointed in May 2013, and I'm responsible for the day-to-day running of the institute.

A summary of IPAV's main objectives are: it was originally set up to provide a professional, representative organisation for auctioneers, valuers and estate agents to protect, advance and promote professional standards among its member; to promote professional competence among its members; to protect the interests of members, as between themselves and between non-members and general public; to provide a system of professional education; to ensure education plays a continuous and significant part in its members' professional development; to apply, petition or promote in the Republic of Ireland any Act of the Oireachtas, EU directive or other legal measures in order with a view to attainment of the above objectives; and to establish a disciplinary committee, consisting of five internal and two external professionals.

IPAV has submitted to the committee IPAV's memorandum and articles of association, as amended in 2013, which details the structure and process of IPAV. Further to this, all documents supplied by IPAV to the committee and detailed in the metadata sheets is, to the best of my knowledge, true and correct. To the best of my knowledge, the majority of documents supplied to the committee are in the public domain. However, some documents, such as IPAV practice handbook, the blue book valuation templates and the blue book terms of engagements are specifically for IPAV members and are available to IPAV members in the members area only of *ipav.ie*.

Chairman, in relation to the specific references, B4b and R5d, I am asked to comment upon, I wish to make the following points but, before so, I wish to emphasis that I can only comment in relation to IPAV and my role as CEO.

Self-regulation through IPAV: all IPAV valuers are subject to self-regulation through IPAV. Unlike auctioneering and estate agency, which is governed by the Property Services Regulatory Authority, there are no national valuation standards for valuers in Ireland. However, IPAV undertook the role as self-regulator for its own members. While the valuer must possess the necessary qualifications, experience, ability, knowledge and training, he or she must always be objective and professional in his or her view and in appraisals and assessment of value. In many cases, it will be necessary for the valuer and, where appropriate, any valuation company, to show that he or she is independent of any party interest in the outcome of the valuation. Any such connection, or potential conflict of interest, or threat to the valuer's independence and objectivity, should be disclosed in writing to the client and recorded in the valuation report and the terms of conditions.

Conflicts of interest: it is important to note a quote from the Central Bank of Ireland, CBI, paper Valuation Processes in the Banking Crisis - Lessons Learned - Guiding the Future in the final paper of 18 December 2012, a copy of which has been supplied by IPAV to the committee. And they say:

> Where a conflict of interest exists, the valuation is not independent and accordingly it is much more likely that the valuation provided is neither robust nor reliable. All valuations include judgements, but where a conflict of interest exists, it is more likely that such judge-

ments are biased and not in favour of the lender.

The area of conflict of interest is also addressed under IPAV's code of conduct and TEGoVA's Corporate Governance and in the blue book itself. Again, copies of these documents have been supplied by IPAV to the committee.

Article 4, paragraph 76 of EU Regulation No. 575/2013, on 26 June 2013, defines market value and market value is defined as, "The estimated amount for which the property should exchange at the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion." Market value is internationally recognised as the assessment of the value of the property at a given moment in time. It estimates the price that could be obtained for a property at the valuation date, notwithstanding that date could alter over time and sometimes very rapidly. The definition of market value should be recorded in both the terms of engagement and the valuation report the valuers produce.

Valuation in general: the source of valuation and how properties are valued has been very topical in Ireland for many years. Basically the valuation process is broken into two segments: the methodology used to arrive at the valuation figure, there are five standard methods of valuation, namely, comparative, contractors, investment, profit and residual; and the standards used in writing the report. The valuation must be presented in a clear, written format to a professional standard, transparent as to the instruction, purpose, biases, method, conclusion and prospective use of the valuation. The valuation, as determined by the valuer, must be clearly and effectively conveyed to the client. The form and detail of the valuation report is a matter for the valuer's discretion, but must meet the specific instructions from the client to the valuer. A valuation report must adequately report all matters contained within the terms of engagement.

In line with the European valuation standards, EVS, a market valuation should report the following: the instructions for the assignment; the valuer's qualifications; the basis and purpose of the valuation; the valuation date; a description of the property, including a note as to the basis on which the area has been measured; a summary of the legal context - tenure, development control, etc.; a commentary on the marketability for the property; a description of the valuation method and analysis; any assumptions that have been made; any limits on the report; and the valuation standards supplied.

I am of the understanding that banks and financial institutions have generally organised and managed their own valuation panels, with some exceptions, where valuation panels are outsourced. IPAV valuers, in the past and to date, must apply to the relevant financial institutions to be accepted onto the panel. Central to acceptance onto a valuation panel is the holding of an appropriate level of professional indemnity insurance.

The valuation figure derived becomes the critical part of the valuation, as it helps banks and other financial institutions to decide the worthiness of the risk it's going to lend on. The valuation figure will only be reached by experienced, professional valuers, with years of experience in valuing property with their own competency. The standards, while important, are designed to give financial institutions an explanation of, and insight into, the process, factors and judgments applied to help arrive at the final valuation figure, though not a methodology.

Again, I am of the understanding that financial institution valuation panels have operated, and continue to do so, on the basis of getting a spread of valuers throughout the country with the necessary competencies and expertise required by the financial institutions to complete the particular financial institution's own valuation templates. IPAV, as a professional representative body for valuers, has provided guidelines for practising valuers and regular courses and seminars on the subject. However, the actual compilation of the valuation report is a matter for the individual valuer. The completion of the financial instruction's template is a matter between the financial institution and the valuers completing it.

Again, I refer to the Central Bank report of the Valuation Process in the Banking Crisis - Lessons Learned - Guiding The Future, final paper of December 2012. I would like to quote from it:

> Credit institutions should have a properly approved panel of valuers using appropriate selection criteria consistent with the loan portfolio risk. An institution should have [an] ongoing assessment of performance to enable a valuer remain on the panel. This assessment should include a review of [the] valuers performance and professional indemnity insurance...
>
> Credit institutions should ensure that no one firm of valuers has the bulk of their valuation business. Consideration should be given to having no one valuer doing more than, say, 33% of all valuation reports.
>
> Credit institutions should report any concerns in relation to non-ethical behaviour, including instances of unrealistic valuations, to the appropriate regulatory body. In such circumstances, CBI recommend that credit institutions remove such valuers from the panel, which effectively bans them from working with the credit institution...
>
> The valuers duty of care is to the credit institution and this should be emphasised by credit institutions in their written instructions to valuers...
>
> Instructions to valuers for property valuations on collateral security should come from the credit institution in accordance with its clearly defined terms of engagement. Fees should only be discharged by the credit institution. It is for the credit institution to decide as to how it will allocate such costs.
>
> Valuation reports should always be addressed to the credit institution that is advancing the [loan].

And I just want to talk for a minute on European valuation standards, as that's what IPAV use. In the absence of national valuation standards, and following the economic crisis, as part of its ongoing review to increase the professional standards of its members, IPAV carefully studied the valuation process and standards available in Europe, and its choice was to either adopt the English or European valuation standard. After detailed analysis and consideration, IPAV concluded that the European valuation standards, EVS, of the blue book were the most appropriate for IPAV's needs. IPAV believed that with the UK threatening to leave the EU and Ireland committed to Europe, it was both prudent and progressive for IPAV valuers to accept and adopt the EVS.

IPAV was awarded membership of the European Group of Valuers Associations, TEGoVA, in 2012 and also appointed as their administrator in Ireland. From this, IPAV introduced its members to the recognised European valuation, REV, scheme. This scheme is administered across Europe by TEGoVA, which in 1996 created the blue book. This book is continually updated and is now in its seventh edition. There are approximately 2,200 REVs throughout Europe and by 31 December 2013, and 60 of those were in Ireland. The EVS of the blue book are recognised as reliable International standards by the Central Bank of Ireland, the European Central Bank, and the European Parliament.

To achieve REV status, IPAV educates its qualified valuers through its specially tailored courses, held in the Institute of Technology in Tallaght. This ensures that IPAV members who complete this course meet with the expected minimum educational standards, MER, of TEGoVA, a copy of which has been supplied to the committee. IPAV's qualified valuers are those who are professionally qualified, experienced valuers, with a minimum of ten years practical experience, and who have at their fingertips vast knowledge, comparable instructions, and details of sales in their own area. Since the REV qualification was first introduced in Ireland in 2013, all IPAV REV valuers must agree and sign up to a contract that demonstrates their commitment to IPAV and also confirms the level of self-regulation it imposes. Compliance and standards are the cornerstone of the EVS valuation reports, and IPAV compliance officers monitors and examines valuers' written valuation reports on an *ad hoc* basis. IPAV, as the administrator of the REV scheme in Ireland, is subject itself to five years reviews.

I will now move on to R5d. R5d - appropriateness of relationship between Government, the Oireachtas, the banking sector, and the property sector. Again, Chairman, I wish to begin by starting ... I can only comment on the role of IPAV and its members' relationship with the Government, the Oireachtas, the banking sector, and the property industry generally. I will summarise briefly as follows.

The Government: IPAV has always engaged with members of Government in regard to lobbying on various items of legislation and issues of interest as they arise. For example, IPAV makes an annual pre-budget submission to the Minister for Finance and Minister for Public Expenditure and Reform, and, in recent years, has also made presentations to the Joint Oireachtas Committees on Finance and the Public Service, and Department of Agriculture. IPAV has engaged, as necessary, with the Minister, Minister of State, and senior officials in the Department of Environment, Community and Local Government in relation to housing and related matters. Ministers and Ministers of State have attended and addressed IPAV's annual conferences and regional seminars over the years. IPAV has always kept lines of communication open with Members of the Dáil and Seanad, both Government and Opposition, in briefing them on relevant issues as they arise both individually and in committee. IPAV makes regular submissions to joint Oireachtas committees where useful exchanges of views regularly take place. IPAV has nominating rights to Seanad Éireann and members are from time to time elected to either House.

The property industry itself: IPAV has engaged with parallel professions and professional bodies in the property business and industry. IPAV representatives have regularly attended conferences organised by related professionals and institutions and have made, and continue to make, a determined effort to engage with all stakeholders in the industry. Representatives of such professional bodies are invited to attend IPAV's annual conference.

And the banking sector: IPAV has engaged as much as possible with the Central Bank of Ireland and individual financial institutions. IPAV lobbied for the inclusion of the blue book as one of the preferred standards in the CBI final report issued in December 2012.

And my conclusion, Mr. Chairman: Overall, it is IPAV's view that the relationship between the four sectors, Government, Oireachtas, banks and property stakeholders, should be one of being independent of each other, yet communicating through the correct and transparent channels for the betterment of all, and the common good of Irish society. While the priorities of the sectors often differ, as is to be expected, IPAV believes there should be an ongoing dialogue between the stakeholders. However, to date it has tended to be sporadic rather than consistent. In this regard, IPAV has long advocated the need for establishment of a property council, which would be representative of all stakeholders and which would help advise Government in a holistic way on all issues in relation to property. While it would advise participants, it would be expected to respect the democratic imperative that Government governs and have the final say on any policy initiative. IPAV believes such a body, which would have a purely advisory role, would have the potential to play an enormous part in helping build a sustainable property market, bringing about stability and avoiding future troughs and peaks, as have occurred in the recent past. Volatility may serve isolated interests. It does not serve consumers, it does not serve the auctioneering profession and it does not serve the common good.

Thank you for all for listening to my long statement, and I'll take some questions.

Chairman: Thank you very much, Mr. Davitt. Just one summary, just with regard to your opening statement: you talk about the qualifications and continuous professional development required to valuers. Can you please describe the principal features of both, and maybe if you can also inform the committee as to whether the IPAV assessed the effectiveness of courses through, for example, surveyors ... or surveys of valuer clients?

Mr. Patrick Davitt: The professional CPD is 20 hours, and it has to be done by ... completed by all valuers. At the moment, the valuers that completed it are the REV valuers. IPAV had recently, which probably hasn't anything to do with where we were up to now, but has recently introduced a second status, which is a TRV status, which is for residential valuers, so now we have one for residential valuers-----

Chairman: That's 20 hours per annum, is it?

Mr. Patrick Davitt: Yes, 20 hours per annum. So they must complete 20 hours per annum, and that 20 hours per annum will go through something from maybe new directives that come in, new laws, regulations, to the completion of valuation reports and how they're completed. And the *ad hoc* reporting then: we have a compliance officer who will, each year check each valuer that we have that's registered under a REV scheme or our TRV scheme, and checks them if their valuation reports ... to see that they're done correctly and that they're up-to-date.

Chairman: And in terms of this evaluating the effectiveness of the courses, do you take surveys or ... of valuer clients?

Mr. Patrick Davitt: We don't actually, no.

Chairman: Okay, thank you.

Mr. Patrick Davitt: No, sorry.

Chairman: Deputy Doherty. Fifteen ... 12 minutes, 12 minutes.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte an tUasal Davitt chuig an coiste. In your opening statement you talked about how IPAV valuers are subject to self-regulation through IPAV, and that there are no national valuation standards for valuers in Ireland. And, bearing in mind that statement, can I ask you what is your assessment of the robustness in the valuation process used by IPAV pre the crisis and post the crisis?

Mr. Patrick Davitt: Well, pre the crisis the valuation standards were a certified valuer by

IPAV, and a certified ... to be a certified valuer from IPAV you would have to have a minimum of ten years' experience to be a member of IPAV. You would have to have completed some of our IPAV courses, our educational courses. And since we brought in the blue book, which ... the TEGoVA blue book, for the REV status, you would have to have ten years' experience, and you have to have completed the minimum educational standards of TEGoVA. So, I suppose, since 2013 the standard is obviously moved on, I'd say, and it's moved on because we now have an outside body that certifies the valuers, so it's very good from a European point of view and from an Irish point of view.

Deputy Pearse Doherty: But pre the crisis, were the processes robust is the question I asked.?

Mr. Patrick Davitt: Well, they're not ... they weren't robust from the ... we didn't have CPD, and we didn't check our valuers or have *ad hoc* inspections on them. No, we didn't.

Deputy Pearse Doherty: So what was the weaknesses in the processes if they weren't as robust as they are now?

Mr. Patrick Davitt: I'd say the weakness in the process was that there was no valuation standards there so ... like ... we didn't ... IPAV didn't have to have standards for their valuers, as such, because there was no national actual standards. So whatever we had was a plus from a national point of view.

Deputy Pearse Doherty: And why are there no national valuation standards for valuers in Ireland?

Mr. Patrick Davitt: Well, there are none ... up to this date there's none. But when the new European mortgage directive comes into effect in March of next year ... 2016, there will be then ... Ireland will have to have valuation standards and national valuation standards because it's a ... Article 26 of the mortgage directive it says that there has to be valuation standards that are recognised as European or international valuation standards. So they're going to have to come in then. But there was none actually in the country that you could use or that people would use or that valuers would use.

Deputy Pearse Doherty: And has IPAV ever lobbied Government looking for such standards to be brought in ... such standards to be enshrined in Irish law?

Mr. Patrick Davitt: Well, we have since we ... since we started with the ... since we took in the blue book in 2012, we have done that and we have met with the Department of Finance on many occasions to do this and the Central Bank as well.

Deputy Pearse Doherty: But prior to that, though, you never suggested there should be national standards brought in by Government. Is that correct? Is that what you are saying?

Mr. Patrick Davitt: Yes that's ... but that's ... as far I am aware, yes.

Deputy Pearse Doherty: And why would you ... why would the ... your body not suggest that your members would be ... would be accountable to national standards enshrined in law? Why did you never suggest this?

Mr. Patrick Davitt: But if there's none there you can't be ... I don't ... I'm not ... I don't understand exactly but if there's no national standards there like-----

Deputy Pearse Doherty: But the point I'm making is that you've actually never suggested that there should be a national standard up until 2012. That you were comfortable with the fact that you were a self-regulating body, is that correct?

Mr. Patrick Davitt: Yes. Well, there are two different things with the valuation standards. There's the valuation standards and the valuation methodology. The methodologies were always there which is the way the actual valuations are worked out. The standard is how it's written up. So just to ... sort of ... and I know probably people here maybe know more about valuation than I do but it's to ... to write it up ... to write up the valuation its written like a composition, I suppose. You know, there's a heading and there's a centre and there's a tail piece. So the standards would actually make the way the valuation is written - that's it's written in a clear and concise manner. But the valuation methodologies, that the way the valuation is worked on are always there and were always there and are still always there.

Deputy Pearse Doherty: And did anybody ever suggest that there should be - in Government circles or Department circles - that there should be a national valuation standard prior to 2012?

Mr. Patrick Davitt: I'm not aware of it. I'm not aware of it. Being honest about it, I'm not aware of it.

Deputy Pearse Doherty: Was your body comfortable, or not, being a self-regulating body for valuers?

Mr. Patrick Davitt: Well we are ... and we are at the moment. And we were quite comfortable being a regulating body ourselves. Because we're not a regulating body, as such, we're an institute, so we regulate our own members, obviously. But it's not a national regulation or a Government regulation.

Deputy Pearse Doherty: You mentioned the methodologies used in relation to valuation. Can you outline how the methodologies used in relation to Ireland pre the crisis compared to our European partners?

Mr. Patrick Davitt: The methodologies would be the very same throughout Europe and are the same today. Like, the five methodologies I give in the front of my report would be the very same methodologies that would be used today.

Deputy Pearse Doherty: Okay. The banks valued loans on an amortised basis as they were the originators of the loans. By contrast, NAMA, on acquisition of the loans, value them on fair and true-market-value basis. As a result, the aggregate loans came to be valued at €31.8 billion by NAMA in contrast to €74 billion value estimated by the banks. Against this background, how robust in your view were the valuation methodologies during the boom years given such a scale of downward adjustment? And we can see the NAMA discounts on page 25 of the core documents.

Mr. Patrick Davitt: The valuation ... a valuation ... a market valuation ... both of them are done on market valuations. Like ... the ... the ... NAMA call them a different ... a different valuation but this is an open market valuation. So the open market valuation of a property is taken on a valuation date ... on a particular valuation date. So if I value a property today ... if I go to look at a property today under the now understanding of market value which is in the new directive in June 2013, I have to actually ... today is the day I have ... I have to do the valuation value. I can't come back in two weeks' time and when I start to write up the report do the valuation value on that day. So I have to do it today. So when I do the valuation report today and I do that today, it could be value A. Now if I was six months prior to that or a year prior to that, or a year again prior to that, obviously the open market valuation is going to be ... its a moving figure at any time because it is ... on the particular day that you do the valuation. So while the discounts are there for NAMA ... but the discounts are on different times. So the timeframe would have been possibly ... the NAMA date was 2009, 13 November 2009. Whereas a lot of the valuations were done ... completed before that. So the valuations ... you would only have to ... have to believe that the valuations were done on the correct valuation open market value on that date that they were done.

Deputy Pearse Doherty: You mentioned you'd have to believe. Do you believe that they ... in the robustness of the valuations that took place that amounted to the fact that the banks ... the institutions had loans of €74 billion that were written down as you said in 2009 by NAMA to the value of €31.8 billion?

Mr. Patrick Davitt: Well, I personally would believe in them. But, like, until such time as you would look at each report you would ... you obviously ... it's only then you would ... you would see whether the valuation was correct or not correct. But the ... the next scenario after that is that every valuer has to have professional indemnity insurance when they write a valuation. So its ... apart from the standards that the institute would actually make for them, they have ... they have professional indemnity insurance to cover in the event ... if they make a mistake. So if the valuations are incorrect ... like, the banks obviously can sue the valuer. And we haven't seen any evidence of that. So, like, the robustness of them from looking at them ... looking in at them without actually seeing the actual valuation itself would lead me to believe that they were robust ... on the date that they were done. Like ... it ... what happened with NAMA and the prices went down, you could also say if those valuations were done in 2002 and then you were comparing them to 2006 you would also see that the valuations could have gone a way up.

Deputy Pearse Doherty: So is there anything in your methodologies today that would suggest that the valuations that were given on those assets to the institutions would be any ... any way different?

Mr. Patrick Davitt: Today?

Deputy Pearse Doherty: Yes.

Mr. Patrick Davitt: Well, if I was to use today as a valuation date for a property-----

Deputy Pearse Doherty: No, no ... the methodologies.

Mr. Patrick Davitt: No. No, there isn't anything different, no.

Deputy Pearse Doherty: So, using the practice that you apply today and ... going back to that period in 2006, 2007, 2008 ... the valuations in your view would still be of the level that they were?

Mr. Patrick Davitt: Well, if the banks were up ... asking for open market value, which they did and which they do, there would be no difference in it because the valuer has to complete his valuation on the valuation date, on open market value.

Deputy Pearse Doherty: Okay. Can you explain this to me. We have had evidence in today's inquiry about some people that ... that would have been looking for trophy properties for status purposes - and I won't be mentioning any individuals ... no individuals' properties was mentioned in that case - but ... just explain this to me, from a valuation point of view. If somebody is after a trophy property ... and lets say it's a group of hotels, for example, and they're willing to pay €1.5 billion for that group of hotels. Is that the value that you will put on it, despite the fact ... because that it what somebody is willing to pay for it ... despite the fact that you know that the comparison group of hotels in the region or in that region would be maybe half the value?

Mr. Patrick Davitt: No. That isn't the value we put on it. You would have to put ... the comparison value is ... normally what valuation of what open market value works to. So you have to look at the comparison value. So, for instance, if I was going to value hotels and a valuer was going to value a hotel group, they would have to have comparisons to back up their own valuation. So they would have to look at recent sales that took part ... or that took place in hotel industry ... and they would have to look at those valuations and they would have to build those valuations or valuations similar to them into their ... their ... their figure for the new valuation the were doing.

Deputy Pearse Doherty: Can I ask you why did your body, which represents valuers, lobby the Government in relation to tax changes for the property sector? For example, the abolition of the stamp duty and changes to the stamp duty, mortgage rent scheme, mortgage interest relief... they are quite numerous. Why did a body such as yours ... that are ... is an institution in terms of valuation, go into that area?

Mr. Patrick Davitt: Well, we are not an institute as regards valuation, we're an institute in regards of auctioneers and valuers so like we obviously have auctioneer members who are selling properties every day of the week, as well as the valuation on the other side of our business. So since I came to IPAV in 2013, I've tried to divide up the institute to have valuers and valuers with proficient qualifications on one side and auctioneers on the other side. Now, at the auctioneering end of our business as well there was no regulation ... well there's an auctioneer's license there but until such time as 2012 when the property regulation came into being ... like the regulation there was scarce enough as well because you could go to court and get a licence. But ... so why would we ... we do this? I presume at the time ... the CEO at the time felt that it was a good thing to do and he felt that that was needed ... and that's ... that's why they looked for it.

Deputy Pearse Doherty: Was it the right thing to do in hindsight?

Mr. Patrick Davitt: I can't tell you that. I don't know like ... you know ... well for instance-----

Deputy Pearse Doherty: Can I ask you ... in the position that you hold, was it appropriate in 2006 to be lobbying for the abolition of stamp duty? Was it appropriate to be lobbying for a number of measures that some would say would have potentially fuelled the property bubble?

Mr. Patrick Davitt: Well I think while the ... at that particular time you're talking about ... the budget submission, you're talking about, is that what you're talking about?

Deputy Pearse Doherty: Yes.

Mr. Patrick Davitt: At that particular time, I think in that document you will see that the CEO of IPAV at the time said that supply had caught up with demand and that ... in 2006 we were talking about, on one side of 2006 we were talking about some elements of the market were saying that we needed 93,000 units a year to fulfil the Irish demand. Other people were saying that the property market was going to bust and boom and they'd been saying that for quite a while, and the Government were saying we were going to have a soft landing if all this happens. So, like the IPAV would see, from their members throughout the country, that there were a certain amount of properties ... that probably overbuilt. So like, you know ... obviously, from this point of view, to help first-time buyers this would have been an ideal thing from our point of view.

Chairman: Final supplementary. You'll have time once more at the end, Deputy Doherty.

Deputy Pearse Doherty: Can you just inform the committee or ... or for a body that represents auctioneers, who sells the property, and a body who represents valuers, who value the property, some people would see that as a conflict of interest and suggest that when valuations increase everybody wins. What would you say to that notion? How would you rest ... how would you rest the concerns that people would have, that by increasing the valuation you increased the benefits to the members that you represent on both ends?

Mr. Patrick Davitt: Well, I would say that valuers have to value property on the basis of ... open market value I'm speaking about here. So if you're a bank and you instruct a valuer to value a property, you ask them to value it on open market value, so the valuer has to value it on that value and they have to use comparables to prove their valuation. So like ... if it helps the other side of the business, well then fine. But, also like we are taking a scenario here where valuations only go up like. Valuations go down as well. So we are looking at if the valuation, if he values it down the valuer, well then one people aren't happy and if he values it up other people aren't happy. So all they can do is use their professional judgment and if their professional judgment are incorrect ... like what ... there is a step, a fall-back part there and the fall-back part there is the professional indemnity insurance that they hold.

Chairman: Okay, thank you very much. Deputy John Paul Phelan. Deputy, 12 minutes.

Deputy John Paul Phelan: Thank you, Chair. Mr. Davitt, good afternoon. To touch on an area that Deputy Doherty mentioned in relation to methodologies for valuation, can you outline for the committee what changes have taken place since the period of the bust in terms of the valuation methodologies that are used by your members?

Mr. Patrick Davitt: From the methodology point of view?

Deputy John Paul Phelan: Yes.

Mr. Patrick Davitt: I don't believe there's any changes that has taken place because the methodologies are a standard practice that are used by valuers.

Deputy John Paul Phelan: Okay. Do you not feel that perhaps, following on from the collapse in property prices ... that questions at least were raised as to some of the valuation methodologies that were used prior to the ... prior to the property collapse?

Mr. Patrick Davitt: Well, I feel that, and I think every valuer and auctioneer would feel, that it's very unfortunate what has happened and it's very unfortunate that the property went the way it did and like, you know, from people's point of view that are in negative equity and ... it's very, very unfortunate - certainly that part of the ... is very, very unfortunate and we certainly feel for that and we have lots of auctioneering members and valuers who went out of business and had to let employees go and their families themselves were involved with this. But, at the end of the day, the valuer has a responsibility. If you instruct the valuer to do a valuation for you on market value, that's what they have to do. They can't - just because they see that the property prices fell in 2006 or 2007 or 2009, or '82 or whatever - say "well I'm not ... I'm going to treat this valuation differently and I'm going to value it lowerly or higherly. And like they can't do that. They have to value the property on the basis of market value and there's a specific methodology there for it, so that's what you must do.

Deputy John Paul Phelan: Following on from that, did you ever come across, in your current role or your previous role, any situations where valuers were put under pressure by financial institutions or developers to alter their valuations?

Mr. Patrick Davitt: Well, I think ... under normal circumstances when valuers would do valuations, I think lots of times different people, or different members of the community would call valuers because it depends on who they are valuing the property for - X, Y or Z. So in your situation, if you speak about bankers and you talk about developers, obviously valuers would take calls from bankers and developers because when you're doing up the valuation it is very important that you do get the value right because we're talking about a lot of money here. So ... if developers would call you and tell you "Look, are you taking this into consideration, are you taking that into consideration?", if bankers would call you and say "Are you taking this into consideration, are you taking that into consideration?", there's no problem in taking a telephone call from them and seeing are you .. have you got the correct information, have you got everything right. But to change the valuation up or down because somebody would ask you - it would be a very foolish valuer that would do that.

Deputy John Paul Phelan: Okay. Again, to touch briefly on that matter that Deputy Doherty raised - the standards, the European standards that have been adopted. The group that ... which you are a member of now, I think has existed since 1971.

Mr. Patrick Davitt: Yes.

Deputy John Paul Phelan: Why is it that it took until 2012 for the Irish institute to join up? Is there any particular reason?

Mr. Patrick Davitt: Well, the standards of the blue book is what we are talking about here. The blue book, anybody could do a valuation to the blue book standard, so like the standards were there ... and you could use it. If you decided-----

Deputy John Paul Phelan: But why did the institute not join the European umbrella group, if you like, earlier and adopt those standards, in the absence of domestic standards?

Mr. Patrick Davitt: I can't actually tell you that but what I can-----

Deputy John Paul Phelan: You were president of the organisation on occasions. Was there discussions? That's what everybody-----

Mr. Patrick Davitt: There were discussions, yes. There were discussions about different groupings and different bodies. The most body that would be here in Ireland would be the English valuation standards of the RICS, or the Red Book, and, I suppose, members were trying to decide among themselves as to which standard would be good for them to have. And, I suppose, being honest about it there was no need to have a membership of any body, there was no need to certify your standards ... and standards we are talking about, not methodologies.

There was no need to do that so, I suppose, valuers decided they wouldn't do it. But when I did become CEO of the institute, when I could do something about it I did something about it, and we joined TEGoVA, and not alone that but we have ... we have valuers now that are ... have the highest standing in Europe ... in recognised European valuer and now the new residential valuer. I know it's only two years ago but a lot of work has been done on it.

Deputy John Paul Phelan: Can you offer any explanation for the inquiry as to the often large variances in valuations that existed in property valuation in the period prior to the collapse in property prices?

Mr. Patrick Davitt: Are you speaking about some of the valuations that are in these booklets?

Deputy John Paul Phelan: Yes.

Chairman: I've the reference for that there if you want to bring it up.

Deputy John Paul Phelan: I don't have the reference-----

Chairman: I have it here. It's Vol. 2, core documents, IPAV, Jones Lang LaSalle valuation report Project Atlas, pages 11 to 21.

Deputy John Paul Phelan: In a relatively short period of time, valuations seemed to diverge pretty dramatically between different valuers and I'm really looking for ... your ... an explanation as to that divergence.

Mr. Patrick Davitt: Which page is it, Mr. Chairman?

Deputy John Paul Phelan: It's on the screen in front of you.

Chairman: These would be a sample of valuations that would have been provided to yourself, Mr. Davitt, in preparation for you coming before the committee today.

Mr. Patrick Davitt: Yes, I'm looking at this particular one in front of me here.

Chairman: Sorry, it's Vol. 2, my apologies.

Mr. Patrick Davitt: Yes, it is, yes. I have it... well if this is the one we're speaking about here ... this particular document here that I am looking at is not really a valuation, so like ... to comment on it ... I can comment on it to a certain degree, but obviously it's probably outside of where I am as CEO of the institute, but I will comment on it for you, if you'd like me to.

Deputy John Paul Phelan: Please, if you would.

Mr. Patrick Davitt: The document itself is ... it's a note written on ... taking into consideration, or taking into account, a valuation that was done at different times and it's a *pro-forma* type of valuation that's done or it's a note confirming the valuation is really what it is - it's not a valuation. There's possibly a valuation report behind this, I'm not sure of whether there is or whether there isn't. But it says on the right hand side, if I'm reading it correctly, it says the internal valuation held by the bank on 1 October is €65 million and it says on 31 May 2008 it's €65 million and they're happy to hold it at 65 - sorry, it may be done the other way around, it is possibly done the other way around - that it was done by a valuation company of the 31 May of €65 million and it was held by the bank at €65 million. They continued the valuation at that stage, and then when the normalised valuation was done at the 30th ... I don't know what date it is ... it's ... I think it's the end of November I think it was when these valuations were done, or the first week in December - the normalised value, the sale is valued by €43 million ... €42,500,000. And obviously they say different reasons why the valuation is different. They say the value with and without planning permission provided in the report and the value adopted, was a lower figure. So like they are looking at different ... the inputs in a valuation are going to be what the outputs are going to be, so if you put in different inputs obviously you are going to get different outputs. This valuation is possibly for land - I don't know what it's for - but the land values have fallen from 2006-2007 to 2008 and 2009 by possibly by as much as 90%, so they fell very, very quickly. But if you put in different things ... if you take different ... different assumptions when you're putting the valuation together, obviously you are going to get different ends at the other end. So it's the ... the valuation might have fallen, and it looks there it has fallen - obviously we can see that - but the reasons is what we'd want to look at.

Deputy John Paul Phelan: I'm going to change briefly. I only have a few minutes left. Does your organisation conduct audits or, kind of, a sampling of valuations by its members to ensure that ... to test for accuracy and to test for adherence to the standards?

Mr. Patrick Davitt: We have a process now where every valuer is checked on an *ad hoc* basis and, at least once per year, we have a compliance officer that looks at the valuation and looks at the valuation standard. But you can't really .. and IPAV aren't in a position to examine whether the valuation is done ... the valuation figure at the end, if that's what you mean, is correct or not correct, because we simply wouldn't know unless you take the valuation and you look at it by an expert to see if the valuation is done correctly according to standards and if it comes up with the right figure, because different valuers will see different valuations in different lights and they will look at different inputs again that they put into them. So the valuations are going to be different and the end result is going to be different.

Deputy John Paul Phelan: Did you say every member is evaluated or how does that process work?

Mr. Patrick Davitt: Every member that has a recognised European valuation status is done. .. is examined on an *ad hoc* basis.

Deputy John Paul Phelan: So it's not what you'd call an audit, effectively, then. It's ... because there can be differences ... legitimate differences, is what you're saying-----

Mr. Patrick Davitt: Yes.

Deputy John Paul Phelan: -----between what one valuer sees and what another-----

Mr. Patrick Davitt: It's not an audit from the point of view of a valuer. There's the person that would look at these valuations ... the compliance officer who'd look at these valuations isn't going out to look to see if the valuation figure came out right at the end of the day, and I don't think it's IPAV's responsibility to see that, because that person holds professional indemnity insurance, so if there's a problem with it, I think that's where it ... that's where the liability will lie.

Deputy John Paul Phelan: Okay. Final question. Can you describe for the committee the stress test that would typically be applied to a large multi-purpose commercial and residential development in a major urban centre, and how such stress tests would account for low occupancy uptake potentially of that facility?

Mr. Patrick Davitt: You mean leading to a valuation?

Deputy John Paul Phelan: Yes.

Mr. Patrick Davitt: The stress testing-----

Deputy John Paul Phelan: Yes.

Mr. Patrick Davitt: The stress testing from the valuation point of view would be depending on whether the building would be tenanted or not tenanted; how long the tenancies are for; the covenant that would go with the tenancies, so whether the covenant is good; whether the covenant isn't good; whether there is a long lease, a short lease; whether the lease is subject to break clause; or whether it isn't subject to break clause. All of these things would be tested to see where they are and what is the scenario with them. So, like, you know, the occupancy, obviously, in any shopping centre is very, very important. It may not have been that important during the period that we're talking about but it's exceptionally important at the moment, and, at that time, in 2006, 2005, 2004, like, they were tenants ... lots of tenants were in and out of buildings, so, like, it was much easier to rent property, but now it's quite difficult, even though now it's like there's ... the market is changing again now slightly.

Deputy John Paul Phelan: Okay. Thank you.

Chairman: Thank you very much. The next questioner is Deputy Eoghan Murphy. Deputy, you've five minutes.

Deputy Eoghan Murphy: Thank you, Chairman. And thank you, Mr. Davitt, you're very welcome. Looking at the pre-crisis years, how did the various codes of conduct deal with a situation whereby the valuer was being paid by a borrower, often a large developer, rather than directly by the lender? How did the code of conduct deal with that? Or did the code of conduct deal with that?

Mr. Patrick Davitt: Well, the code of conduct didn't deal with it because it was the norm at the time. Like, valuers were paid by the person who required the valuation, and the bank, if we're talking about bank valuations here now, the bank would tell the valuer to go ... or tell the person who was getting the valuation, in some banks ... and some banks were different. But if you look at a situation that you're talking about, a bank would possibly give a valuation form to somebody who was borrowing money and say, "There's your valuation form. You take that to a valuer and get it completed and take it back to us." Some of them may have had valuation panels, some of them may not have had valuation panels. So that person would pay the valuer for doing that work.

Deputy Eoghan Murphy: Okay, and how would the valuer protect themselves then from a potential conflict of interest, if it arose?

Mr. Patrick Davitt: Well, the potential conflict of interest is in the code of conduct, and there is a potential conflict of interest in what you're speaking about, but, at the same time, like, that's the normal practice that was done and that's the way ... that's the way things were done until now ... well, probably until 2012, I'd say, until the Central Bank examined the banks and they came up with different proposals as what should happen. But valuers would be very happy with this and would have looked for this on lots of different occasions because if you go to value something for somebody and they're not happy with the valuation and you're in a small area or even you're in a big area, it's not a great situation to be in, because they will obviously want bigger values and the valuer doesn't do it, so, like, you've very little choice as to what you're going to do. You've to say to them, "Look it, I can't do that, I'm sorry. You may ask somebody else or do something different or whatever you want, but I can only do a valuation for you to this value."

Deputy Eoghan Murphy: Would that be a likely outcome in such a situation where such pressure was coming down on a valuer?

Mr. Patrick Davitt: It could be. It depends on how well they know the person and how well they knew them and what happened with them and ... you know, like, it could well be, but, like, in most cases valuers would have to value the property and the end result isn't always what people wanted but that's what you have to do.

Deputy Eoghan Murphy: During the boom years then we had a small number of large developers having a disproportionate share of land and property development, so how would the valuation process mitigate against the risk of a developer, you know, using that position to have the values increased in a general way?

Mr. Patrick Davitt: You mean asking the valuer to increase the values?

Deputy Eoghan Murphy: Yes, but even by point of view of, say, where you're in an almost cartel-like position or monopoly-type position, you can use your land banks to influence potential valuations because you're able to put the pressure on the valuers, given your size of the market.

Mr. Patrick Davitt: Well, you're able to put pressure on the valuers if the valuer will take the pressure and that's fair enough, but also the valuer has to have ... like, valuers mostly ... if I could put a scenario to you, like, on a Monday morning, a valuer would go into work in his valuating office and he would see headlines, maybe on the way in, that somebody went to an auction on Friday and they bought a piece of land which is a new record price, so that record price that that particular piece of property made on the Friday previous is the new comparable that that valuer has to use if he's doing valuations in that week. He can't go back and use comparables that he had the week before that, which was probably a lesser price. So according as values moved up and valuations moved ... the valuation price moved up as well. So, like, if builders went and they paid over the top for land or whatever they paid for it, the valuer had to use those comparables, because if you didn't use those comparables you weren't doing what you were actually paid to do - you weren't doing a proper valuation of the property.

Deputy Eoghan Murphy: Can that become a self-fulfilling mechanism to increase property values in general?

Mr. Patrick Davitt: Sorry, I didn't-----

Deputy Eoghan Murphy: Can it become a self-fulfilling mechanism whereby someone pays a particular price, that then sets a new value, the valuer then comes to value a piece of land close to it or similar to it the following week, there's now a new value placed-----

Mr. Patrick Davitt: That's correct. That is correct. And that's the same-----

Deputy Eoghan Murphy: Self-inflating, if you like.

Mr. Patrick Davitt: That's the same today. Like, if somebody wants to pay a different price for a property, the valuer must take it into consideration.

Deputy Eoghan Murphy: Okay. And then ... how do we explain then a situation whereby someone might put a value or a perceived value, in terms of bidding for a property, and have a valuation done subsequently that would come in at the same amount? I'll give you an example.

Mr. Patrick Davitt: Okay.

Deputy Eoghan Murphy: If you look at - and Deputy O'Donnell has raised it before - the Irish Glass Bottle site-----

Mr. Patrick Davitt: Okay.

Deputy Eoghan Murphy: -----where there was a valuation, I think, in 2006, of €264 million. That same year, a bid was made for €411 million and then the organisation, Becbay, had to get financing from Anglo Irish Bank, so they had the site actually valued after they'd made the bid, and the valuation came in at €412 million.

Mr. Patrick Davitt: Okay.

Deputy Eoghan Murphy: It was only out by €1 million.

Mr. Patrick Davitt: Okay.

Deputy Eoghan Murphy: How do you explain that?

Mr. Patrick Davitt: Well, I can't explain it, because I haven't seen the valuation, but I've heard lots of talk about it, so, like, you, know, the valuer ... it wouldn't be any different for ... the valuer has to do the same thing. They have to come up with the comparable evidence to prove the valuation. So if they didn't come up with the comparable evidence to prove the valuation well, then, obviously, again we have a fall-back position of their professional indemnity insurance.

Chairman: Final question, Deputy.

Deputy Eoghan Murphy: Thank you. And just to clarify then, when you're doing a valuation, there is no future element. You don't look forward as to where the property sector might be going or where values might be going, it's the valuation.

Mr. Patrick Davitt: Not with open market value.

Deputy Eoghan Murphy: Okay.

Mr. Patrick Davitt: IPAV have talked about ... and actually we have met about different times and we talked about a mortgage lending value which could be used, which is a different value, but the value that banks look for is an open market value. So an open market value is what you have to do.

Deputy Eoghan Murphy: And when there is no market?

Mr. Patrick Davitt: Well, if there's no market then you will put in your report ... when you do up your report, you'll do up your report ... at the bottom you'll say that there is no ... there's possibly not as good evidence for comparable valuations as what I would like. But at the same time, like, you have to try and look for as much comparable evidence as you can get. That's what you have to do.

Deputy Eoghan Murphy: But if you think the market is maybe going into decline-----

Mr. Patrick Davitt: Yes.

Deputy Eoghan Murphy: -----you can't factor that into the valuation give on that point in time.

Mr. Patrick Davitt: You can factor it in, because obviously it's ... it could be used as an assumption, and a special assumption it could be used as ... and you can factor it in, yes.

Deputy Eoghan Murphy: Okay, thank you.

Chairman: Thank you very much, Deputy. Senator Sean Barrett. Senator, five minutes.

Senator Sean D. Barrett: I think Senator MacSharry is on the list, is he? Yes.

Chairman: You're next, Senator Barrett.

Senator Sean D. Barrett: Thank you, Chairman, and I don't want to delay the proceedings. The IPAV members, if I may ask Mr. Davitt, on the valuation panels, are they subject to participation restrictions such as a maximum number of valuations for the same bank client or does a rotation regime apply?

Mr. Patrick Davitt: I don't know that. I don't know what way the banks would work their valuers. The Central Bank ... the only reference that I have to that is what the Central Bank said in 2012 when they did the final report. They said that valuations reports shouldn't ... or a valuation business shouldn't be carrying on any more than 33% with any one particular valuation company, so I wouldn't know which way that ... when value ... when banks come to look at ... I presume it's area, I would imagine. So if something comes, for instance, in Naas, the valuer in Naas that we have on our panel would get that valuation.

Senator Sean D. Barrett: Are your members paid a percentage of the price of a property, for their services?

Mr. Patrick Davitt: From banks or from anybody?

Senator Sean D. Barrett: From anybody.

Mr. Patrick Davitt: Okay, well we will take the bank situation first. So the bank situation is that the bank would have an agreed fee that they would pay the values, which to do a valuation for a house, for instance, could be somewhere in the region of €100 to probably €120 to €130 to maybe €150. So that the bank ... the valuer would know that every time they do an evaluation, they will get so much money for it. On bigger properties, there will be fees and scales for bigger properties with... so if you are taking it up to €1 million, maybe €1 million to €2 million, €2 million to €5 million, €5 million to €20 million and so on and so forth. There will be different rates that the banks would agree with it, and they would pay the valuer on that basis. If you are doing it for an ordinary individual, it depends again on what sort of valuation you are doing. If you are doing a short-term valuation or you are doing a long valuation, like a blue book valuation. If you did a blue book valuation, if you give me a figure and I'll tell you roughly what I would think you would be ... that you would be paid for it.

Senator Sean D. Barrett: Okay, now in Vol. 2, page 15 of the papers, core documents, if I may refer you to that. There is a statement at the end of that, "Anglo methodology not market practice." What was the difference between the Anglo methodology and the market practice?

Mr. Patrick Davitt: I honestly can't say.

Senator Sean D. Barrett: But somebody is offering it as an explanation why a property dropped €104 million between 1 September 2008 and 11 December 2008. Did Anglo have a different methodology to everybody else? Was that known in the trade?

Mr. Patrick Davitt: Well, it certainly isn't known to me. And like, you know, the valuer does say there that the methodology used can either be if market value or net disposable, net development value, so either one there would get you to where you are. But they ... they're saying the methodology was not market practice, so I don't know what value they were using.

Senator Sean D. Barrett: And just, can I bring another question to you, if I may? That you called, in Vol. 1 for, on page 55 of that document, in your pre-budget submission, for "a doubling of mortgage interest relief for first-time buyers" and that was in 2007. Wouldn't that have caused yet another bout of house price inflation?

Mr. Patrick Davitt: Well, it could well have caused another bout of house price ... valuation. But, at the end of the day, you know, what first-time buyers were finding at that particular stage, probably from our members were, that it was very difficult to buy properties being a first-time buyer. And that was why, obviously, it was called for at the time. I suppose when you further read on that you will see there's a bit of a note on the market as to where the market was or where they felt the market was, which was slightly different.

Senator Sean D. Barrett: In that same document, around page 13,16, the Central Bank says that you have poor valuation instructions, poor documentation, poor qualifications, failure to conduct regular evaluation, informal evaluation, updates. It's a fairly strong indictment of your profession, isn't it?

Mr. Patrick Davitt: Are you looking at the Central Bank document now?

Senator Sean D. Barrett: I'm looking at Vol. 1, pages 13, 16, 18. I was coming to the end of my time, so I had to lump them all together, 18, 20, but there is a lot of criticism from the Central Bank of the-----

Mr. Patrick Davitt: It's in the Central Bank document itself?

Senator Sean D. Barrett: It is, yes.

Mr. Patrick Davitt: Okay, I have it.

Senator Sean D. Barrett: I think the first of them starts on page 13, "Poor valuation instructions" and then, but it's a theme that continued, very strongly throughout the document as you know.

Mr. Patrick Davitt: Okay. Well, the "poor valuation instructions", they were talking about the banks giving valuation instructions to the valuers. And in lots of case the valuation instructions, I'd say were quite poor. Normal valuers would look or normally a valuer would look for an instruction that would give you precise instructions as to what the bank wanted the valuation for and maps and everything to go with it. And in lots of cases, that wouldn't happen. The valuers might get a telephone call and say "will you go out to look at this house or this property, and will you do this valuation on it"? I suppose, that is what the Central Bank found and valuers ...

we would have to say that that is correct.

Senator Sean D. Barrett: And, poor documentation, poor qualifications, failure to conduct regular valuations, informal valuations and updates?

Chairman: Okay, Senator, so be brief.

Senator Sean D. Barrett: Do those all stand as criticisms, or what has been done since to remedy what the Central Bank was saying?

Mr. Patrick Davitt: Well, those criticisms are what they found that the banks were doing. That the banks weren't getting proper valuations, possibly or ... not maybe proper valuations, but getting valuations on a ... a very regular basis. Like, valuers are happy to do valuations whenever they are required, because obviously they get paid for them, and they will look at the valuations. But like, in lots of reasons maybe banks don't want to get valuations done up to date. And I presume in those documents, you are talking about, the Central Bank was talking about the impairment of loans, because they had something to do with the impairment of loans. So that would make a differences to the valuations ... up-to-date valuation, as opposed to an older valuation that they were using because of the fact that we are looking at market value, and the values keep changing .

Senator Sean D. Barrett: Thank you and thanks, Chairman.

Chairman: Thank you very much. Can I just deal with one question there before I bring in, before I invite Senator O'Keeffe? It just comes back to your own opening statement there Mr. Davitt. Can I ask you if, overall in your assessment, how robust were the checks and balances in dealing with potential conflicts of interests in the pre-crisis period?

Mr. Patrick Davitt: I'd say that the conflicts of interest that were ... that were there, the valuation, like being instructed by a person who was buying a property to do a valuation is something that the institutes wouldn't like and still don't like, but it still happens in some cases. So, like, there obviously is, and which can be seen to be a conflict of interest there right from the start, but institutes would and we have a code of conduct, so we would expect members to act to that code of conduct.

Chairman: Okay. But in a very, very simple fashion. Let's say, during the period of time when house prices were escalating very, very rapidly, coming up to 2007. If somebody, let's say, was selling a house-----

Mr. Patrick Davitt: Yes.

Chairman: -----and they were going to buy another house.

Mr. Patrick Davitt: Yes.

Chairman: The first thing that they may do is that they would ring up a valuer. Now, where would they find a valuer? Would there be an office that just has valuers inside in it, or would it be an estate agent or an auctioneer they would be calling to find the valuer?

Mr. Patrick Davitt: The valuer that would do that valuation would probably be an auctioneer and they would do what we would call "a thinking of selling". So they would go out to visit that person, the auctioneer would, and they would tell them what they thought the property was going to be worth and what it would make.

Chairman: Now, as I understand it, the practice at the time, it may not be the practice anymore, but the practice at the time was, is that the auctioneer at the estate agent selling the house would set their fee on a percentage of the sale value. So let's say if I was selling my house for €100,000, the auctioneer, the estate agent would get 2% of that, which would be €2,000 and if my house sold for €200,000, they would get 2% or 3% of that, which would be twice the sum. Was that the practice then and does that still remain the practice now?

Mr. Patrick Davitt: That was the practice then and that is the practice now. And the practice then would have been as well as that, that some auctioneers would go and they would do a particular fee on to sell a property or they would do a particular fee if they got X amount of moneys to sell a property.

Chairman: How much would a valuation cost? Approximately, a standard?

Mr. Patrick Davitt: A one-off valuation to do this? To value the house? About a €100 ... between €100 and €150.

Chairman: €150? And 1% of the sale of a house for €100,000. How much would that be?

Mr. Patrick Davitt: €1,000.

Chairman: Okay, so it is about seven or eight times the cost of a valuation, yes?

Mr. Patrick Davitt: Yes.

Chairman: So in profitability terms, there is a ... the profit margin on a sale or a valuation, which provides a greater potential for profit?

Mr. Patrick Davitt: Well, the valuer has to go out and look at the property and has to do up the valuation report. The person who is going to sell the property has to go out and look at the property and estimates what he thinks the property is going to make and then they have to market it, they have to view it, they have to sell it, they have to do the conditions to go with it and everything.

Chairman: Okay.

Mr. Patrick Davitt: So, in ... if you are looking at the €100,000 sale, there probably isn't much difference. Obviously the valuer is probably better off going to look at the house and getting his €130 or €150, because it is a one-off visit and he just does the deal and that's it.

Chairman: Okay, I want to talk about the kind of ... the particular years when we saw massive house price inflation, here it was going up multiples over a period of time. What was the ... what would be the standard percentage rate on a sale from an auctioneer or an estate agent? How much ... would it be 1%, 2%, 3%?

Mr. Patrick Davitt: It was always ... sort of a tradition in auctioneering that the house prices in Dublin were larger so the fees in Dublin would be smaller than they would be in the rest of the country.

Chairman: Okay, yes.

Mr. Patrick Davitt: So there was always sort of a ... and I am talking about even before the crisis that we are speaking about now, there was always this sort of an anticipation that the property prices in Dublin when they were high that the fees would be somewhere in the region of 1.5% to 2% and the fees in the country would be anywhere from 2.5% to 3%.

Chairman: Okay.

Mr. Patrick Davitt: Now, when the prices of houses moved up, obviously the fees moved down slightly. So, like, at that particular stage if you are talking about a house in Dublin, you could be talking about maybe 0.5% of a fee for it. Maybe less even depending ... or maybe more depending on who the auctioneer was and what fee they were able to negotiate.

Chairman: I understand, so let's just split the difference and say it was 2% national average at aggregate figure or it is 1.5%. The point that I would like to be arriving at with you is this: when house prices were escalating at a rapid rate, were the profitability of auctioneers increasing in a similar fold?

Mr. Patrick Davitt: Were the profitability?

Chairman: Yes. The income. If you were getting 1.5% or 2% on a €100,000 house and five years later that house was selling for €200,000, it would have meant that your income would have increased by 100%.

Mr. Patrick Davitt: It would.

Chairman: Okay. Would ... did that present any thoughts within your industry as to whether these are great times or are these times of great concern?

Mr. Patrick Davitt: Well, I think the prices were times of great concern. The fees that auctioneers were making or earning at the particular time would depend how they were running their offices, where there offices were, were they on main street offices were they working from their car or what were they doing and the amount of staff they had to back it up because, obviously, everything it's about ... at the end of the day, it's about take home pay. Now whatever amount of take home pay you're able to manage to get out of your office depends on the, obviously, the cost, that you've got in it so really when the fees are large there's probably going to be a lot more cost, if the fees are small there's probably going to be less cost.

Chairman: But the people purchasing houses during that time their wages were being increased on a kind of a steady rate, but the prices of the houses that they were trying to buy were increasing in multiple folds. Are you suggesting that auctioneers, that their wages or incomes were increasing like those people who were buying houses or were you in a different space that your incomes were actually increasing with the speed at which house prices were increasing?

Mr. Patrick Davitt: Well, it depends on whether the auctioneer was working for, and I want to be as clear as I can-----

Chairman: I'm on about the firm now-----

Mr. Patrick Davitt: So if an auctioneer was working, obviously, for a firm, his wages would increase on the way he would be able to negotiate with his bosses as to how much they increase.

Chairman: We're talking about the firm's profitability, not the individual, because he'd be on a salary but the firm itself.

Mr. Patrick Davitt: So the firm's profitability, obviously if they're getting in more fees it would increase, yes.

Chairman: Okay, thank you very much. Senator O'Keefre.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Davitt, you were an auctioneer yourself?

Mr. Patrick Davitt: I was.

Senator Susan O'Keeffe: And you're not practising anymore?

Chairman: I can get a bit of phone distortion there.

Senator Susan O'Keeffe: I'm sorry, Chairman. You were but you are not anymore.

Mr. Patrick Davitt: I was an auctioneer, and I am an auctioneer at the moment but I'm not practising auctioneer at the moment.

Senator Susan O'Keeffe: Okay and were you a valuer also?

Mr. Patrick Davitt: Was I? Yes, I was a valuer, yes.

Senator Susan O'Keeffe: Thank you. How many auctioneers in Ireland does your organisation represent?

Mr. Patrick Davitt: Approximately 1,000.

Senator Susan O'Keeffe: I mean how many of the practising auctioneers proportionately? Do you represent 2% or 52% or 92%?

Mr. Patrick Davitt: Well, the auctioneering licences at the moment are broken down into different sections. So there are companies, which there are 2,000 companies in Ireland and IPAV would have about 500 of those companies and there are 6,000 employees and IPAV would had about 500 or 600 of those employees. So there are roughly 6,000 auctioneers licences in the country at the moment.

Senator Susan O'Keeffe: Given what the Chair was talking about there in terms of fees and so on that were payable to auctioneers at the time of selling a house, do you accept or not that auctioneers played a part in driving up the prices of houses in that, in the period of time that we're discussing?

Mr. Patrick Davitt: Well, they played a part because they were in the game, and the game being that they were in the business. Like, if prices were moving up the auctioneer would have to get them because they have got a responsibility to the vendor that employs them to sell a property to get the best price possible for that property. And in this particular time that we're speaking about, if you went to auction, a vendor could go to the auction and sell for herself and run up the price of the actual sale themselves to the value, to the reserve price that they would decide to put on the property. So auctioneers were caught in a bind between representing their agents, or representing their vendors and getting the best price. And, obviously, if you get the best price, like if auctioneers knew, obviously, that the prices were going to tumble by 50% and 60% when we look ... hindsight is a great thing but we were, we were part of it so, yes, of course.

Senator Susan O'Keeffe: And at the time an auctioneer would benefit directly if your fee was 2% and you got a higher price you'd get more money. it's as simple as that is it?

Mr. Patrick Davitt: You would. it is as simple as that, yes.

Senator Susan O'Keeffe: Do you know did banks and auctioneers work together in places perhaps to try to shift properties on or to move them or to entice developers to get involved with buying a particular site or a piece of land or anything? Was there collaboration and co-operation going on behind the scenes?

Mr. Patrick Davitt: With auctioneers?

Senator Susan O'Keeffe: Yes.

Mr. Patrick Davitt: If you had a show house ... I'm going to get to this point and I don't know if this is the point you are trying to make-----

Senator Susan O'Keeffe: I'm just trying to see whether the banks and the auctioneers were talking to each other about trying to move property, about trying to sell land and sites. Were they working together informally?

Mr. Patrick Davitt: I would say the quick answer to that is "No", but, having said that, if an auctioneer had a show house or show houses, they could have banks, a representative from the bank in that particular property that would sell mortgages. They could have a mortgage broker or something in that particular house on the day that they would open the property so people could come and talk to the mortgage guy there or the bank there about a property and about a mortgage.

Senator Susan O'Keeffe: How many complaints, if any, were made to your organisation in that time period about flipping, about auctioneers being involved in flipping properties on?

Mr. Patrick Davitt: You mean flipping them themselves?

Senator Susan O'Keeffe: Yes.

Mr. Patrick Davitt: We have about on average ... we have about 30 complaints per year on average.

Senator Susan O'Keeffe: All through that time as well?

Mr. Patrick Davitt: All through that time, now there could be 35 or there could be 25 but not an enormous amount. But there are complaints to the institute and we have a robust complaints committee to look after them.

Senator Susan O'Keeffe: I'd like if I might to read from a book called *Breakfast with Anglo*, which you may be familiar with, written by Simon Kelly, who was himself a developer, and he says simply:

> Banks believe valuers which always amazes me because valuers don't buy buildings. Valuation figures could be swapped for real money less a discount of about 20%. We'd be able to borrow 80% of whatever figure I could squeeze out of the valuer. An extra million in the valuation would be like the valuer writing me a cheque for £800,000.

What do you say? Yes.

Mr. Patrick Davitt: Well, what I say is that the valuer to back up that figure that Simon is speaking about, he has to back up the figure. So like if he has to back up the figure, whether there's a million different or not a million different, he still has to back up the figure that he's putting on the property.

Senator Susan O'Keeffe: But he goes on to describe how he, in one particular circumstance, and it's obviously had happened before, that he sat down and had a great conversation several conversations with the valuer and they haggled about how they could arrive at the valuation. And he explains how, you know, if you change the ERV and if you looked at the ... you could, it was money in the bank for him. And he's ... you know, it's quite a graphic account. I'm just wondering is this familiar to you, is this what happened? Was this what ... I mean developers sitting down with valuers to discuss and haggle about the valuation seems to me to be at odds with the professional guidelines and principles of your organisation, so?

Mr. Patrick Davitt: Well, I think haggling about the value is one thing, but discussing the value, let it be haggling or discussing or whatever it is, because a valuer will make up his mind to the value of a property and, obviously, if the developer as you speak about there thought the valuation is differently, well then, obviously they, will contact the valuer and then say, "Listen we think that valuation is incorrect", or whatever the case may be. So the valuer will say, 'Why do you think it's incorrect,' and then, if this is what you call haggling, the valuer could say, 'Well, did you take into consideration this, did you take into consideration that?" And the valuer then, obviously, from his point of view or her point of view has to decide on if they took this into consideration or they didn't. So if that's the haggling part-----

Senator Susan O'Keeffe: Yes, but there was discussion. It wasn't just that the valuer did it in a silo, not liaising with the developer.

Mr. Patrick Davitt: There could have been discussions, yes.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you. Deputy McGrath.

Deputy Michael McGrath: Thank you, Chair. You're very welcome Mr. Davitt. Can I just start by asking you about the lack of a residential property price register and, indeed, a commercial one during the decade, let's say, leading up to the crisis? What difference might it have made if there was a published register of prices that were achieved?

Mr. Patrick Davitt: I think it would have made the difference that people would be able to see what actual properties made because auctioneers' hands were tied. If you called me ... if I sold somebody's property and you called me and asked me how much I got for it, I couldn't actually tell you. Despite the fact of whether I wanted to tell you or whether I didn't want to tell you, I couldn't tell you. So the property register made all that information available to people that's actually out there in the open and people can see openly what properties made and what people got for their properties. So it makes an awful lot of difference and it makes a great difference from comparables, even though the property register for the moment it holds a certain amount of information. It could be extended to holding different amounts. But it does and it has been a great help.

Deputy Michael McGrath: But in the absence of such a register, would speculation about what price a property fetched, could that potentially help to push up prices in the absence of hard data?

Mr. Patrick Davitt: It could but, like, you still have to, if you're a valuer, you still have to take into consideration what properties were making so you would have to find out, so like what you would have to do is before the price register was there, you would have to get a brochure on a property. So if I went to do a valuation, I would have to come get a brochure and a property, possibly call the agent and see on a one-to-one did you sell this property, how much did it make, what happened with it? So like lots of auctioneers were keeping databases of their own or valuers were keeping databases of their own to see what different particles of land or different properties made in different areas.

Deputy Michael McGrath: And do you believe there should be a commercial property price register?

Mr. Patrick Davitt: Well, I do. There's a commercial property price lease register and the compulsion is on the people who actually lease the property to put the details into it. And I do believe that the lease register would be very, very good and I think it would be very informative from an auctioneer's point of view, and valuer's point of view as well.

Deputy Michael McGrath: To have a register of sales prices?

Mr. Patrick Davitt: To have a register, yes.

Deputy Michael McGrath: Yes. Okay. What level of disclosure is there on a valuation of the assumptions that underpin that valuation? How informative is a valuation document for the reader apart from the figure that it gives for the valuation?

Mr. Patrick Davitt: Well, the plan of a blue book valuation report, which is quite a document, it is anything from probably 20 to 50 pages, the plan of that blue book document is, if I did that for you and I gave it to you, and you didn't know the property, just take it if you didn't know the property at all, somebody was buying possibly that property for you, and you looked at this valuation report, the plan of that document is, that when you look from the first page to the photograph, to the end page to where the valuation figure is, that you will know as much about that property by the time you've finished the report, as I will after writing it. That is what it's supposed to portray, with all the different headings and everything that are in it. So the assumptions are one part of that and the special assumptions are another part of it. So, like, those assumptions, first of all to do a blue book valuation, I must write you a letter or a terms of engagement. So that terms of engagement must take in what assumptions I am going to use. So if I am going to use A, B, C or D or if I am going to use special assumptions like forward looking, like planning or something like that, so they must take consideration of that.

Deputy Michael McGrath: Yes but who is that document made available to?

Mr. Patrick Davitt: To the person requiring the valuation.

Deputy Michael McGrath: Right, but not necessarily the purchaser, who may be relying on a valuation?

Mr. Patrick Davitt: Well, if the valuation is done for the purchaser, the purchaser will have the documentation. If the valuation is ... are you talking about a bank here?

Deputy Michael McGrath: Yes, I know what you mean. I suppose if an organisation is selling a property and they base the asking price on a valuation, they have that blue book as you call it-----

Mr. Patrick Davitt: Yes.

Deputy Michael McGrath: ----- with the assumptions and so forth. But a prospective purchaser does not have any knowledge of the valuation which underpins the asking price. They can get their own valuation.

Mr. Patrick Davitt: Exactly. They can, yes. Well, they can ask for, like, you know, if a purchaser gets a blue book valuation the property to find out what the valuer believes that the value of that building is before they put it on the market, pre-putting it on the market, well then obviously the purchaser is going to know that the value of the property is X, Y, Z, whatever it is and they are going to know how the valuation is worked out. It was worked out on open market or whatever it is worked out on. So they are going to know that, and that's the information that they are going to have. They are going to put their property on the market and they are going to put a reserve price on it of X, Y, Z. So then the person who wants to buy the property is going to come and look at the property and say, "Well I think that's too much money for it", or "I don't think that's too much money for it, but I better get a valuation on it to make sure of what the situation is with it." So the chances are that valuers may well talk at that particular stage about the assumptions that have been put on the property, if there have been any put on it.

Deputy Michael McGrath: What is the downside to a requirement whereby the seller's valuation, with all of that detail, would be made available?

Mr. Patrick Davitt: The duty of care is the problem from a valuer's point of view because the valuer will have a duty of care to somebody, they can't have it to everybody. So if they write a valuation to whom it may concern, they could have a duty of care to loads of people, but if they do a valuation for a particular person, that's who they're doing the valuation for and that's who's paying them for doing the valuation and that is who their duty of care is to.

Deputy Michael McGrath: Thank you.

Chairman: Senator Michael D'Arcy.

Senator Michael D'Arcy: Mr. Davitt you are very welcome. Can I ask you in relation to the blue book, we are up to the seventh edition now. Prior to the peak of the boom, how many, what edition was available at that stage? What are the improvement in the standards?

Mr. Patrick Davitt: It is roughly every four years the blue book is issued. Now, it could be in between that as well. There is a new one coming out in 2016. It is being part-written at the moment. So the next one will be, the eighth edition will be in 2016, the last one was in 2012. The one before that was in 2008. So it could have been in the beginning, because the blue book was a new document that was written with valuation standards, so it changed possibly quite often. So until such a time as they got a firm view on the valuations standards or the valuation standards they were putting into it, until they got them right from their point of view.

Senator Michael D'Arcy: So what you are saying is that the book, the '04, would there have been an '04 edition?

Mr. Patrick Davitt: There could have been. If we go four years back right from now, we are talking about 16, 12, eight, four.

Senator Michael D'Arcy: In terms of the improvements from '04 to the current edition of the seventh, what are the major ticket items that have improved, in terms of the standards, for your profession?

Mr. Patrick Davitt: The biggest thing that changed in this particular edition from the last edition was they have a mortgage lending value in it, which wasn't in it before. A mortgage lending value would be a sustainable value for a mortgage, like the Germans use this particular mortgage lending value for sustainable value of properties and they brought in this into law. It is BelWertV is what they call it, and that might not be the greatest German explanation of it, but we call it BelWert five. It was brought into law in Germany in 2006, which would use mortgage lending value on a property which would smooth the value over a particular term of the mortgage. So it could be over 20 years or it could be over 15 years, or whatever it is over. So that mortgage lending value and a definition of mortgage lending value was brought into the blue book in 2016. There are other things brought into it, like there are different directives brought into it, like the new mortgage directive, there is the capital requirements document, is part of that in it, which were brought into Ireland in law in 2012, I think. So those documents are there in the blue book which weren't there or would not have been there before. So as current evaluation standards change, the blue book is updated.

Senator Michael D'Arcy: Can I reference document IPAV, Vol. 2. On page 3 to page 10, it is Project Atlas.

Mr. Patrick Davitt: Which page?

Senator Michael D'Arcy: Page 3 to page 10. If you look at, effectively, at the terms and conditions, the instructions, assumptions, normalised value and then going down to the very last page, the use of this review. Would those terms and conditions be standard for a direction for external valuation, for PwC? Are they unusual and as a former president and CEO, and previously a professional auctioneer, would they be normal? The terms and conditions?

Mr. Patrick Davitt: Are you taking about the methodology here now or the assumptions or are you talking about both of them?

Senator Michael D'Arcy: Effectively, from page 3 to page 10, all of that document to date, to where it starts, the actual information. Is that a standard progression for valuers?

Mr. Patrick Davitt: Probably a lot of it is and a lot of it could change from valuation to valuation or from client to client. Now that's the draft one that I have here, so like, it may have changed by the time it was written.

Senator Michael D'Arcy: That is all that is available to us, so it's the only evidence we can operate from.

Mr. Patrick Davitt: No, that's okay. But it is a draft one, so, like, it could have changed differently from this but at the same time, it wouldn't have changed much because like a lot of the stuff that are here is in the blue book. Now there are some assumptions that they were taking that, under normal circumstances, would you get to allow, would you not get to allow, I suppose it depends on who you are doing the valuation for, and it depends on the instruction that you're doing the valuation for. You would get away with different, or have to use different valuation assumptions than you would have had used here.

Senator Michael D'Arcy: Can I ask on the very last page of that page 10 of the terms and conditions. The area that I want to pursue you upon, Mr. Davitt, "It is critical to understand that our instruction was to provide a considered commercial review of material provided, and not to carry out a due diligence exercise."

Chairman: Sorry Senator, what page of the document are you on?

Senator Michael D'Arcy: Page 10.

Chairman: Page 10. Thank you.

Senator Michael D'Arcy: So it is the second paragraph on page 10. Would that be a standard term and condition for a project of this type? This was a PwC, it was a €5.5 million contract. Jones Lang LaSalle were participating with PwC in this. Would that be a standard term and condition?

Mr. Patrick Davitt: Obviously, from my point of view, I will discuss this with you, but like from my point of view, I am obviously the CEO of an institute and I would not be aware of what's behind this and what material they're talking about. But like the material you are talking about, if you are going to do a valuation for anybody, you are going to depend a certain amount on the material that you are given and that you can use. In this particular case, because they were getting information, I presume from the bank, they had to make sure that, is the information they are getting, is it valid, is it enough, is it not enough. So in some cases it may not have been enough, but they're saying that we are working on doing this valuation on the basis of the information we're getting, and like, it would be standard yes.

Senator Michael D'Arcy: That would be standard. Just to take the information provided by the bank and effectively accept that as 100% accurate.

Chairman: Okay brief supplementary now. Is that a question or ...?

Senator Michael D'Arcy: That is the question I'm putting. It is standard, you're telling me, that they take the information provided by a bank, even though the analysis is to ensure that the banks were solvent and you're telling me that that is standard practice. The information that the auditors are being given and are being requested, that they just take it and run with that information provided by the institution.

Mr. Patrick Davitt: They are saying that they don't do any due diligence on each valuation so I presume on this particular case, they did not look at each valuation as such because maybe they weren't there. I am not sure what this means. You'd have to be behind the scenes to know what this means. Like, you know, I am commenting on the outside here but I am telling you that under normal circumstances, if I was doing valuations for a bank or you were doing valuations for a bank that you have to take it as correct, that the valuation papers that they have are correct, unless it's a thing that you do particular due diligence on every valuation, which would cost, I don't know, you are telling me how much this cost, I don't know what it costs but like, it's a different scenario because you're going to have to go and look and view every valuation and see what, whether the information is correct or not.

Chairman: Thank you. Deputy Higgins.

Deputy Joe Higgins: Mr. Davitt, does the Institute of Professional Auctioneers and Valuers have a position on the requirements regarding deposits for mortgages from both the borrower and the economy generally?

Mr. Patrick Davitt: Yes.

Deputy Joe Higgins: Can you tell us?

Mr. Patrick Davitt: The position we have is that we're not happy about the 80% and the 20% for the LTVs deposit ... 20% must be supplied or must be given by their ... must be provided by the purchaser.

Deputy Joe Higgins: And what would your recommendation be?

Mr. Patrick Davitt: We'd like to recommend that there would be a market valuation ... a sustainable value instead of that because it gives the bank and it gives the person the ability to know that the valuation of the property isn't going to go up in troughs and rises and falls, like ... so it's going to be a lot leveller and it's going to be a smoothing valuation as opposed to having the 20% for everybody.

Deputy Joe Higgins: Okay. Do you have a figure that you recommend in regard to the percentage?

Mr. Patrick Davitt: The ... again, I'll go to the German one ... what the Germans look at, and these figures are ... they're looked at every year, so the Germans would come at a valuation for this for their mortgage lending value and they would come at a valuation that you could use for indexing properties with the yield of somewhere between 5% and 6%, depending on if there was zone areas or there are different zoned areas.

Chairman: First-time buyers or in general, Mr.-----

Mr. Patrick Davitt: Sorry?

Chairman: First-time buyers or in general?

Mr. Patrick Davitt: No. I'm talking about in general and I'm talking about property in general here. I'm not talking about first-time buyers. So, they would have this, and this ... it's viewed every two years in Germany. Now it could be viewed every year in Ireland until such time as we get to a figure ... a yield figure that we're happy about. But for first-time buyers, like, 20% of a money for a first-time buyer to buy a property is a considerable amount of money to have to get their hands on to buy a property.

Deputy Joe Higgins: Okay. Mr. Davitt, you said in your opening statement that:

> IPAV [the Institute of Professional Auctioneers and Valuers] believes such a body, [you're referring to a national property council] which would have a purely advisory role, would have the potential to play an enormous part in helping build a sustainable property market, bringing about stability and avoiding future troughs and peaks, as have occurred in the past. Volatility may serve isolated interested. It does not serve consumers. It does not serve the auctioneering profession. And it does not serve the common good.

But is it or is it not a reality that what happened during the bubble with property and house prices was hugely advantageous, materially speaking, for the income and the profits of auctioneers?

Mr. Patrick Davitt: Well, if the prices of the properties have risen, which they did rise in 2006 to levels in 2006, it had been advantageous ... very advantageous for some companies who were selling a lot of properties, yes.

Deputy Joe Higgins: The ... you say in page 7 of your testimony that the institute, "... makes regular submissions to Joint Oireachtas Committees where useful exchanges of views regularly take place", and you have made budget submissions.

Mr. Patrick Davitt: Yes.

Deputy Joe Higgins: Now, can I ask you, Mr. Davitt, if during the 2000s, when house prices for first-time buyers especially, were shooting up by anybody's standard, and where research shows that between 1996 and 2006, the price of an ordinary home went up each year by the equivalent of the average industrial wage, which was a huge figure, and a huge imposition on the people who were now suffering the consequences. But your institute and your members, seeing the people who are the victims of this, if you like, did you make any representations to the Oireachtas or to any Government agency with regard to the seemingly unrestrained way that house prices were rising?

Mr. Patrick Davitt: I'm not sure ... I would say not, but I'm not 100% sure about it, because ... and going back to through things in the institute that I've come across, I haven't come across anything to say that.

Deputy Joe Higgins: Do you think ... was that a failure by the institute or not, that it didn't intervene when it might seem obvious to many people that things were becoming completely unsustainable in the sense that first-time buyers being forced to go for 35 or even 40 year mortgages at unsustainable levels? Should your institute have intervened?

Mr. Patrick Davitt: In our pre-budget document of, I think it's 2006, I think it's the one it is ... I'm not 100% sure about it now but I could take it out of it but I think it's 2006 and it's one that you have there. We did say in that document, that we felt that the prices were changing and the prices were too high and it wasn't sustainable. And I think auctioneers and everybody in the marketplace was aware that the prices weren't sustainable because they had gone up an awful lot as you correctly say.

Chairman: I just want to deal with this to get a bit of clarification on one thing with you, Mr. Davitt, and thus in regard to the IPAV. During the period, or even currently, has the IPAV adopted any best practice monitoring and implementations model arising from other European countries?

Mr. Patrick Davitt: Sorry, I don't-----

Chairman: I'm asking has your association or your agency adopted any best practice monitoring and implementation models arising from other European countries? So have you looked in other jurisdictions and said, "There's something happening over there. It's not happening here. Let's go away and do that?"

Mr. Patrick Davitt: Well we have done ... we have done different surveys of different European partners because we are members of different European groups. Apart even from TEGoVA we're members of different surveying groups or European groups, and we have done different surveys on pricing throughout Europe, on mortgages throughout Europe, on LTVs throughout Europe, on conveyancing throughout Europe. We have different surveys as to what it is, and we have made these surveys and reports available to the Government. The most recent one we did was on conveyancing and the time of conveyancing. So we have done this throughout the years and we have made Government aware of them.

Chairman: Alright. Okay. Thank you very much. Deputy Doherty. Oh, sorry, Deputy O'Donnell.

Deputy Kieran O'Donnell: Thank you, Chairman. Welcome Mr. Davitt. Dr. Davitt, I'm referring you to document Vol. 2, primarily to presentations made by Alan Ahearne and what I wanted really was, was that page 27 and page 31 to 32, and have you examined the factors that fuel property bubbles, as an organisation?

Mr. Patrick Davitt: That lead to the prices of it? How they're priced?

Deputy Kieran O'Donnell: No, no. In terms of the property bubble that arose during the 2000s.

Mr. Patrick Davitt: Yes.

Deputy Kieran O'Donnell: Did you study why you feel it happened?

Mr. Patrick Davitt: We haven't done any survey on it or we haven't done any internal work on it. We would talk about it at council level, which we have a council level of the institute, we would talk about it as to why-----

Deputy Kieran O'Donnell: Why not? I mean, for an organisation of your size, representing so many members, why was it never decided to commission a report as to what the causes were?

Mr. Patrick Davitt: I suppose it's down to money at the end of the day. Like, you know, to commission a report like that would cost a considerable amount of money and I suppose that's one of the reasons why.

Deputy Kieran O'Donnell: And what's your own view of what caused it?

Mr. Patrick Davitt: Well our own ... my own view of what caused it is that the money was, I think, too freely available. Like a lot of European banks and German banks must be ... pumped a lot of money into the Irish market and banks here gave it out to different people which caused that different people could buy properties and bid against each other on the same banks' moneys and rise the property prices up and that's really where the prices went up very, very ... too far.

Deputy Kieran O'Donnell: And in hindsight now, what do you think could've been done to prevent the property crisis ... property crash?

Mr. Patrick Davitt: I think the availability of money is one. Like, the interest rates at the time were very conducive and they were very, very low. I think that would be, certainly, another one. But the mortgage lending value, I think, would be another one, if we were ... if we were able to get into a situation where mortgage lending value could happen. I think that would be another one.

Deputy Kieran O'Donnell: And do you think that the auctioneering and the valuers profession in any way have to take responsibility for what happened with the property crash?

Mr. Patrick Davitt: Well, I think it's very unfortunate what has happened and we would certainly be very sorry for what has happened and we've come to a situation where property prices went up that quickly that even auctioneers couldn't believe it themselves because like, you would do a show house possibly on a Saturday and the prices could be X and you come back on Sunday and the prices could be Y, and even auctioneers themselves were in a situation where the prices were going that quickly that they couldn't probably even ... they didn't even know themselves what the value of properties were-----

Deputy Kieran O'Donnell: Would it be fair to say, Mr. Davitt, that as prices went up, auctioneers and valuers were gaining?

Mr. Patrick Davitt: Well, auctioneers were certainly gaining from it and valuers, there was probably more work for them ... yes, I would say that's correct.

Deputy Kieran O'Donnell: So was there any incentive to call "Stop"?

Mr. Patrick Davitt: But how could you stop it? Like you're ... you have to ... you're representing a vendor who you have to get the most money that's in the market for them. Like, how could you just call "Stop" unless you sold the property at under the market value when you would leave yourself wide open to litigation from the person you sold it for?

Deputy Kieran O'Donnell: Could you have a situation where an auctioneer was acting for both the vendor and the purchaser? Was it prohibited? Is it prohibited, or was it prohibited?

Mr. Patrick Davitt: It is prohibited, and it was prohibited, but you could've had a situation where they did. But like, again, if it was made known to the institute, the institute would be very concerned about that situation.

Deputy Kieran O'Donnell: Was there any penalties for them? Or any sanctions for them if they were caught acting for both sides?

Mr. Patrick Davitt: Well if there was a ... if there was a complaint made to the institute, the institute could set up an inquiry, if there was a prima facie case set up for an inquiry, they could set up an inquiry into this. If they found that, at the end of the day, the member wasn't acting inside of the code of conduct, they could him put out of the institute or her out of the institute.

Deputy Kieran O'Donnell: Was there ever such an inquiry established, Mr. Davitt?

Mr. Patrick Davitt: There are ... well there were and there are inquiries like that established ... not for maybe that particular reason on its own but like for different reasons.

Deputy Kieran O'Donnell: But was it for that particular reason, where they acted for both the buyer and the seller, was there ever an inquiry set up by the institute?

Mr. Patrick Davitt: I would say not but I couldn't ... I could actually go back to our records because our records aren't, in fairness, our records aren't as good as probably what they should be in this regard.

Deputy Kieran O'Donnell: Could you have a situation where many of your members were also agents for various building societies?

Mr. Patrick Davitt: You could have had, originally, yes.

Deputy Kieran O'Donnell: And could you have a situation where they would have acted both for the buyer and the seller and also acted for the purchaser in terms of obtaining the finance to purchase the property?

Mr. Patrick Davitt: You could have had, yes.

Deputy Kieran O'Donnell: Do you believe there was conflicts of interest in that situation?

Mr. Patrick Davitt: I do most certainly believe there was conflicts of interest.

Deputy Kieran O'Donnell: How was it allowed to continue in terms of regulation of your members? You're self-regulating?

Mr. Patrick Davitt: We're self-regulating but we're not Government regulating. We're self-regulating and our code of conduct wouldn't allow you to do that.

Deputy Kieran O'Donnell: But there was never a situation where an investigation was carried out ... where you had a situation where you had an auctioneer acting for both a buyer and a seller and, at the same time, gaining from both the buyer and the seller and also gaining financially from putting the finance in place?

Mr. Patrick Davitt: I'd say that is probably quite true and I'd say the reason there wouldn't have been ... if there hadn't been any inquiry, it would have been because there is no complaints made.

Chairman: Okay, Deputy. Thank you very much. I just want to ... just before I bring in the two leads to wrap up, Mr. Davitt, just to kind of deal with the conflict of interest issue, in maybe a different sphere. And one of the purposes of the inquiry here is looking at best practice going into the future - and looking at practice in the past - but also to look at the nexus of relationships. And in local authorities, for instance, okay, you would have members who would serve on that. Is there a code of conduct or some regulation or book of ethics that would govern how they deal with how the ... local authorities would make decisions upon developments?

Mr. Patrick Davitt: I suppose the quick answer to it is, we don't have.

Chairman: Okay.

Mr. Patrick Davitt: Again, local authority ... councillors you're speaking about here, that would be auctioneers or TDs that would be auctioneers or whatever. So it's really up to the individuals themselves as to how they would conduct themselves and we would hope they would conduct themselves in relation to our code of conduct, but there isn't a specific code of conduct for Oireachtas members, no.

Chairman: Okay. And they do, because I've been a member of council - in the chamber - and people would disclose that they would have a relationship and so forth. But this is nothing that the IPAV ... are you saying today, haven't a code of conduct about or don't give any recommendations as to members who might be in that space?

Mr. Patrick Davitt: No, it isn't, it isn't. No, I'm sorry, it isn't.

Chairman: Okay. The purpose of this is to establish a material relationship between a development that might be going through a local authority, and a member inside in the chamber, it doesn't necessarily have to be an estate agent or an auctioneer, it could be a builder, it could be a ... supplier, anything at all, whatsoever, it could be an electrician. However, in the situation where a person doesn't have a material relationship with the development or the plan or the proposal as it's actually going through the council but, subsequently, when the development is finished and the product is being put to market, the houses are being sold, and somebody comes in, in an estate agency role at that stage, and are now selling the houses, even though they had no relationship at the planning stage-----

Mr. Patrick Davitt: Yes.

Chairman: -----would you see a potential conflict of interest there?

Mr. Patrick Davitt: You mean if the selling agent at the end was a member of council or something like that. I don't think I would see a particular conflict of interest there, if they weren't involved in the planning process right along-----

Chairman: Sure.

Mr. Patrick Davitt: Like, at the end of the day, the market will take the value of the property and it will determine the value of the property in a particular day, so like, I don't see a conflict of interest there.

Chairman: Okay. Right, thank you. We'll now wrap up. Deputy Doherty, one supplementary, and then Deputy John Paul Phelan, one supplementary. Deputy Doherty?

Deputy Pearse Doherty: I just want to ask you in relation to evaluation panels, you mentioned that they were generally organised and managed by the financial institutions and I'm interested to see how those panels created competition between valuers ... amongst valuers ... and also in relation to the Central Bank's report that you mentioned on ... on page 4, "Valuation Processes in the Banking Crisis – Lessons Learned", I would ask you to give comment to the weaknesses identified by the Central Bank, where they say, there was appointment of valuers without sufficient qualifications, appointment without evidence or sufficient professional indemnity insurance, appointment of valuers on the basis that they were customers of the bank, utilisation of valuers without the appropriate experience for the particular assignment and inadequate or no review of panels' members' performance. And given the finding of the Central Bank in relation to that, what action did the IPAV take or were you unaware that this was happening during that period?

Mr. Patrick Davitt: No, we weren't unaware of it because valuers ... members of IPAV were looking to get on valuation panels. So, like, if a valuer member of IPAV looked to get on a panel, we could guarantee from our point of view that at least they had the experience of being a certified valuer. There were lots of valuers probably on the panels who weren't members of IPAV and who possibly weren't valuers in their own right and there's nothing obviously we could do about that because they weren't members of ours. But, at the same time, any member that had the experience, we would count them as certified valuers and we would be happy they would get on the panels of banks. And if banks had a problem, obviously they would make representations to IPAV and tell them that this valuer did X or Y or whatever and we would look at it. But the whole scenario with the banks and who they would appoint ... and if they appointed them because you were a customer of the bank, for instance, if that be the case, that would be the case. And if you were a member of IPAV and you thought the way to get on the panel was to talk to your local bank manager, because you were a client in that bank-----

Deputy Pearse Doherty: Can I ask you this here ... because one of the Central Bank's findings is the point about the relevant experience, where they talk about where "there were instances in which valuation appointments were not assigned to valuers with the requisite experience and inappropriate valuations were utilised by the credit institution[s]". So would there not be a situation where somebody could be accredited to you, but would work in a market which would be ... maybe the housing market, and then is providing a valuation for a major commercial property development that may be happening in the region that they operate but, therefore, wouldn't have the necessary experience? It appears that what you are saying is, all the people that signed up to IPAV were okay, it's the other ones that didn't have the experience and so on. But is it not the case that actually valuations were done ... what the Central Bank is finding is that valuations were done by valuers who didn't have the experience to do those valuations, while they may have experience in other areas?

Chairman: Thank you, Deputy. Mr. Davitt, and then I'll move on to Deputy Phelan.

Mr. Patrick Davitt: I'm saying that the valuers in IPAV, because they had to have experience to become valuers in IPAV, and they had to have a CV qualification certified by IPAV, would have had the experience to do valuations in their own field of valuation and there's no doubt about that. Now their own field of valuation is where we'd expect them to stay in, their own competency. We wouldn't expect valuers ... if they were valuing a house today, valuing a house for €100,000, to value a shopping centre tomorrow for €10 million or €15 million or something, we wouldn't expect a valuer to do that. And we wouldn't like to see a valuer doing that.

Deputy Pearse Doherty: Have you done anything ... the Central Bank suggests this practice did happen. And what did IPAV ... do you accept that? What did IPAV ... what have IPAV done, as the self-regulating body in relation to valuers?

Mr. Patrick Davitt: What IPAV have done is they've brought in the blue book valuation and the EVS, the European Valuation Standards, into Ireland, and they have certified their valuers that they have valuation qualifications in particular fields, so that now, European valuation, REV, which is the recognised European valuer, would have ... and would be capable of doing valuations to commercial standards.

Chairman: Okay, thank you. Deputy Phelan.

Deputy John Paul Phelan: Thank you, Chair. A couple of quick questions, Mr. Davitt. First of all I want to know ... can you outline briefly how IPAV is funded, what's the structure, how the organisation is run? And in relation to disciplinary procedures, what sanctions are available where a complaint is upheld - what sanctions are available to IPAV against its members? And, finally, in answer to one of my previous questions, I asked about the issue of undue influence possibly being brought to bear on valuers, and you said that sometimes maybe valuers might take calls, "Did you take such-and-such into account?" Is there any obligation on valuers that such calls be recorded or that they would be referenced in the final valuation report and, if not, do you think that the valuation report would benefit from such a record being kept?

Mr. Patrick Davitt: Okay. Let's take the first question first. So the ... how IPAV is funded is, we have a membership base obviously of approximately 1,000 members right now, we'd 800 in 2013. And those members pay a particular amount of money to the institute every year, which, if you're a member or a member firm, you'd pay €400 plus VAT or, if you are an employee, you would pay €200 plus VAT. Now we're not a conglomerate, we are a very small organisation. We have three employees and myself, which is four employees. So our ... sort of turnover would be about €400,000 to €500,000 and that would ... our expenses ... last year actually we lost €50,000. But that's unfortunately the way it is. We would do education and we would do CPD as well and we would get a certain amount of fees in for CPD and for education, which would go towards our running costs. So, that's basically where we ... we don't get grants from anybody, or we don't get anything else from anybody else, like, that's where we're funded. The second one was, sorry-----

Deputy John Paul Phelan: The sanctions that are available, if a complaint is upheld.

Mr. Patrick Davitt: Yes. The sanctions that are available are you can put somebody out of the institute, you can put them out for a short time, or you can fine them. Now, we didn't have the fine at the particular time. We've only changed our articles of memorandum and articles in 2013, where we put the fining into it, because we found that with members, you either had to put them out of the institute altogether, or suspend them for a short term which could be up to two years, and that's really all we had. So we've changed that round about to make sure that we have other punishments as well that we could do, if you want to take it like that, and financial ... from a financial point of view.

The third question is the notes ... valuers would have notes, valuer's notes on every valuation. So when you go to look at a site you would have a valuation and you would have your valuer's notes, so you would write your valuer's notes down in your valuation. Now, that could take in the form of e-mails, it could take in the form of site visits, it could take in the form of telephone conversations, so you would, again, expect every valuer to have a site notes and to have them up-to-date, but I can tell you one ... one sort of a small fact which ... from ... I just ... I checked, in the past couple of days, about our ... we would run, with an insurance broker, a professional indemnity scheme for members to make sure that they're covered, and in the past four years, from 2010, '11, '12, and '13 ... In 2010, we've had two claims on our professional indemnity policies. We've had one in 2011, one in 2012, and one in 2013. Now, these policies are written by an insurance company, obviously. They're written by a broker first who would pass them onto an insurance company, so that if there are incorrectness with valuations, that's the place they should go. So, like-----

Deputy John Paul Phelan: Do you have figures for the previous years? I know you weren't in the current position but-----

Mr. Patrick Davitt: No ... I ... I don't ... I didn't get them, because, like, normally these claims would take a year or two to work out like this, but I ... I know that in ... I haven't got the actual figures for the ... the official figures of the insurance company for 2009, 2008, 2007, but I know that they're still quite small, and if they weren't very small, like each of these ... there's over 500 policies on this particular scheme with all on ... on a separate basis. So if they were actually large, you can be sure the insurance company wouldn't be actually taking the cover ... or they wouldn't be at a reasonable price. So the amount of claims in professional indemnity insurance in Ireland for valuers is very, very low.

Deputy John Paul Phelan: Thank you.

Chairman: Okay. Thank you very much. Okay, with that said I'm going to bring matters to a conclusion. Mr. Davitt, is there anything further you'd like to add this morning before we close?

Mr. Patrick Davitt: No, just to thank the committee, and ... and for hospitality and for your questions. I hope I was of some help to you. Thank you very much, Mr. Chairman.

Chairman: Okay. In that regard I would also like to thank you, Mr. Davitt, for your participation here today, and for your engagement with the inquiry. And now to just formally excuse you, and in doing so, I also propose that we suspend until 3 p.m. where we will resume with Mr. Pat Cullen, managing partner, Deloitte Ireland, and Mr. Gerry Fitzpatrick, partner head of audit, Deloitte Ireland. Is that agreed? Okay.

Sitting suspended at 2.03 p.m. and resumed at 3 p.m.

Deloitte Ireland - Mr. Patrick Cullen and Mr. Gerry Fitzpatrick