Sandhurst Trustees Limited

Valuation Policy

BendigoWealth

15 June 2017

Administration

Sandhurst Trustees Limited (ABN 16 004 030 737, AFSL 237906) ('Sandhurst') is the responsible entity and issuer of the Sandhurst Select Mortgage Fund and the Sandhurst Investment Term Fund ('the Funds'). Sandhurst is a subsidiary of Bendigo and Adelaide Bank Limited (the 'Bank'). Bendigo Wealth is the Wealth division of the Bank.

Administration of this policy is the responsibility of Sandhurst.

Introduction

Sandhurst has a niche lending position and endeavours to increase its loan book with the assistance of its third party broker/introducer network and the Bank branch and business banker network. Sandhurst's niche position stems from its desire to provide funding in the main to the commercial property sector.

Sandhurst as responsible entity for the Funds, makes commercial and rural loan advances at fixed rates, variable rates and a combination of both. Loans are made on a full documentation and low documentation basis and may be advanced to individuals, partnerships, companies or discretionary trusts.

In addition to funding directly originated loans, Sandhurst may from time to time purchase mortgage loan pools from the Bank or other financiers.

Sandhurst largely outsources lending administration to the Bank. The Bank is regulated by the Australian Prudential Regulation Authority (APRA) and provides loan origination services, credit assessment, loan documentation and administration services to Sandhurst.

Scope

This policy applies to all properties securing Sandhurst commercial, rural and residential mortgages sourced via Sandhurst's third party broker/introducer network and the wider Bank branch and business banker network.

The valuation practices for properties securing loans purchased under a receivables purchase agreement are governed by the terms of the loan and the lenders' policies and procedures.

Objective

The objective of this policy is to ensure that a consistent framework is applied to property valuations from which all stakeholders can reference and have confidence in the process.

Inconsistency of policy with fund documentation

Where inconsistencies exist, the Funds' constitutions will take precedence over this policy.

Review

This policy is to be reviewed biennially or as required, when there is significant change to Sandhurst's business, market conditions or any regulatory requirements that may impact this policy.

All major changes to the policy must be authorised by the Sandhurst Board or its delegate.

Internal valuations

The Funds do not use internal valuers when undertaking valuations on properties that act as security for the Funds' mortgage assets.

External valuations

Security properties must be valued by an independent registered valuer who is a member of the Bank's panel of valuers. Valuations from non-panel valuers may be accepted but must be specifically approved by Sandhurst management.

The valuer must be a member of the Australian Property Institute, have appropriate Professional Indemnity ('PI') insurance cover and include a warranty in their valuation reports that the report complies with all relevant industry standards and codes.

Panel valuers

All assets securing Sandhurst commercial, rural and residential mortgages are required to be valued by a Bank panel valuer, or in cases where a panel valuer is not available, an authorised alternative.

The Bank maintains two valuer panels. One panel is residential panel valuers, and the other a listing of commercial and specialised panel valuers.

Rotation of valuers

There is to be a rotation of valuers from the panel to ensure there is a reasonable level of diversity of valuers used.

The rotation of valuers is to be regularly monitored to ensure there is a diverse allocation of work amongst panel valuers.

Timing of valuations

Initial loan approval

Security properties are the assets which the Funds' hold a mortgage over when providing a loan advance to borrowers. The mortgage is used as security over a loan should a borrower default on the loan advance.

Properties must have a formal valuation dated no more than three months prior to credit approval. Sandhurst reserves the right to request an updated valuation between credit approval and loan settlement dates, where it reasonably considers there has been a material deterioration in the condition of the security property or in market conditions.

Further lending

Any further lending to existing customers where the security is held by Sandhurst must be supported by a valuation of not more than three months old. In certain cases, Sandhurst may, at its discretion, accept valuations outside of this timeframe, subject to consideration of factors including:

- current loan to valuation ratio;
- the nature of the security;
- the size of the loan;
- there being no material change to the property; and
- confirmation that lease arrangements are unchanged and rental value has remained consistent.

Revaluation of security

Sandhurst may obtain on any future dates, an up-to-date valuation of the property or properties offered as security, at the borrower's expense.

Sandhurst may exercise this option at its discretion for whatever reason during the term of a loan, however, the standard practice is not to obtain up-to-date valuations during loan terms where the loan is performing satisfactorily and there is no considered deterioration in circumstances specific to that loan or the secured property. For commercial interest-only loans (maximum loan term) Sandhurst will revalue security properties at least every seven years. In exceptional cases Sandhurst may at its discretion accept the previous valuation.

The frequency of the revaluations will be determined by the specific loan characteristics and level of credit risk. Sandhurst may require a new valuation, if:

- there is material deterioration in the primary source of payment and/or repayments fall 90 days in arrears;
- there is likely to be a material deterioration in the condition of the security property since last valuation; or
- property values have generally declined and the customer's security property requires early revaluation.

Valuations will be requested within two months of the directors forming a view that there is likelihood that a decrease in the value of security property may cause a material breach of a loan covenant.

Renewal or rollover of a loan

Upon renewal or rollover of a loan, Sandhurst will generally request an updated valuation if the existing valuation was more than seven years ago. Sandhurst may at its discretion accept the original valuation, subject to consideration of the following factors:

- current loan to valuation ratio;
- loan repayment history;
- nature of the security;
- size of the loan;
- ongoing serviceability of the facility can be demonstrated, with Sandhurst's benchmarks being met; and
- no known adverse deterioration to the secured properties.

If the existing valuation was undertaken less than seven years ago and the loan is renewed or rolled over, Sandhurst may at its discretion accept the original valuation, subject to consideration of the following factors:

- current loan to valuation ratio;
- loan repayment history;
- nature of the security;
- size of the loan;
- ongoing serviceability of the facility can be demonstrated, with Sandhurst's benchmarks being met; and
- no known adverse deterioration to the secured properties.

Valuation instructions

Valuations are to be completed on an 'as is' basis.

The Bank must ensure that the valuer's PI cover is prudent in relation to the principal amount of the loan.

All valuations are to be conducted as 'arms length' transactions. The lending officer should seek confirmation from the valuer whether they personally, or their valuation company, have any involvement in the transaction, if so the request must be directed to another valuer.

If a conflict is detected post the valuation being completed, the conflict is to be escalated to Sandhurst management for further investigation.

Valuations of properties valued at more than $1 million

Must be completed by an:

- AAPI CPV (Australian Property Institute Associate Member Certified Practicing Valuer); or
- FAPI CPV (Australian Property Institute Fellow Member Certified Practicing Valuer) or equivalent.

When completed by an AAPI CPV, the valuation must be countersigned by either a FAPI CPV or an AAPI CPV who is also a director or principal of the relevant valuation entity or an approved lender's mortgage insurance signatory.

All valuations for properties valued at more than $1 million must be completed within the prevailing Australian Property Institute practice standards and must include the four (4) property related risk ratings and four (4) market related risk ratings.

Acceptance and review of valuations

Commercial mortgage valuations are submitted via a paper based report, which is required to be signed off by the valuer and requesting officer. For residential mortgages the valuer will present the valuation report to the Bank via the ValEx website, and be available to explain the valuation if required.

The lending officer must examine all aspects of the valuation report closely upon its receipt and ensure it complies with the Bank's standard instructions.

The valuation report will include a certificate by the valuer that they:

- have no interest (financial or otherwise) in the property being valued, or with the parties with whom Sandhurst is dealing (including selling agent, if any);
- are independent to the credit transaction involved; and
- confirm that the valuation has been prepared for mortgage lending purposes.

More information

If you have any questions or would like further information on this policy, please contact us:

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