

**APPRAISAL AND LOAN VALUATION FRAMEWORK FOR  
RIGHTS-BASED SECURE TENURE ARRANGEMENTS AS COLLATERAL SUBSTITUTES**  
*(Appendix to Sec. 314 on Housing Microfinance Loans)*

In the appraisal of real properties or rights offered as collateral substitutes under the housing microfinance program, the form of the secure tenure instrument must be considered. Generally, two (2) appraisal methodologies or approaches may be applied: the market value must be determined using the market data or sales comparison approach for properties under freehold and right to occupy and/or build (in respect of the housing unit or improvement to be used as collateral substitute), and for properties under Lease agreement and usufruct, the value of the Leasehold interest of the borrower must be determined.

### **I. Market value**

Market value is the most probable price that a property should obtain in a competitive and open market under all conditions requisite of a fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming that the price is not affected by undue stimulus. In determining the market value of the property, the appraiser must use the Market Data or Sales Comparison approach. This approach attempts to compare the subject property's value with similar properties and adjust its value according to the presence or absence of value determining characteristics. This approach is based upon the principles of supply and demand and upon the principle of substitution.

### **II. Valuation of leasehold**

A leasehold is the real right of the lessee acquired from an owner (the lessor) of a piece of real estate to occupy and use it for a fixed term or period at a stipulated rental rate, and subject to conditions set forth in a written document of lease. The lease may include the right of the lessee to improve the land, mortgage the building, sublet all or part of the property, and assign or sell his leasehold.

The task of the appraiser is to estimate the present worth or "market value" of the imputed rental income of the lessee derived from the property over and above the rent required to be paid by him to the lessor under the terms of the lease and his interest in any improvements made by him. In evaluating a leasehold, the appraiser must have a thorough knowledge of all the salient terms and conditions of the primary or main lease and any subleases, for these affect the value of the leasehold considerably, such as:

- a. Rental. If the rental to be paid under the terms of the lease is below the rental prevailing in the market, the leasehold may have a substantial value. Where the rental actually paid is the

prevailing rental value of the property, the leasehold may have no value. Prevailing rental rates refer to the rental rates of comparable properties within comparable locations.

b. Term of Lease. A long-term lease or the right of the lessee to renew the lease at the expiration of the original term of the lease may add value to the leasehold.

c. Payment for Improvement

d. Option to Purchase

e. Leasehold Restrictions

### III. Loan Valuation Based on Appraisal Valuation Framework or Methodology

The valuation of properties under the housing microfinance loan program will be based on prevailing market values of real estate properties (freehold and right to occupy and/or build) or prevailing rental rates (leasehold/usufruct). The standard practice of participating banks in determining the loan to collateral ratios shall be adopted. The following terms provided in the table below may be applied:

FORM OF SECURE TENURE OR PROPERTY RIGHT	NATURE AND DESCRIPTION OF ACCEPTABLE INSTRUMENT	TERMS AND CONDITIONS	APPRAISAL METHODOLOGY	LOAN VALUATION
Usufruct	<i>Usufruct agreement or contract</i> - Duly executed contract executed by the owner of the property granting the usufructuary/beneficiary/ client the right to use, possess, and enjoy the real property including its fruits and other rights or benefits	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Lease	<i>Lease agreement or contract</i> - Duly executed contract granting the lessee the right to use and possess the real property for a fixed long-term period in consideration of rental payments	The Term of Lease must not be less than the term of the loan	Valuation of Leasehold Interest	70% of the appraised value of the collateral

Freehold	OCT/TCT - Torrens title issued by the Register of Deeds evidencing absolute ownership of real property <i>Interim Title, Contract to Sell or Conditional Sale</i> - Duly executed contract or other legal instrument issued by the appropriate government agency indicating full payment for the purchase of the property or its conditional sale or conveyance to be perfected upon full payment of the purchase price and/or the fulfillment of other conditions	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach	90% of the appraised value of the collateral
Right to occupy and/or build	(1) Certification validly issued by the appropriate government agency stating that the borrower/client has the right to occupy, build and/or acquire the property he/ she is possessing being an eligible beneficiary of a public or private social housing program or a Presidential proclamation, or (2) certification or written acknowledgment from the owner of the property that the borrower/client has the owner's consent and permission to occupy and build on such property	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach (as to the improvement or housing unit)	70% of the appraised value of the collateral