

## VALUATION POLICY

31 July 2020

### PURPOSE

The RF Eclipse Select Credit Fund ARSN 090 994 326 (**Scheme**)(**Fund**) undertakes valuations of property that forms security for Mortgage Investments made by Members of the Fund, through a Syndicate and are obtained at various times to determine the loan to valuation ratio (**LVR**) and the fair market value of the security. While each valuation is obtained by and for the benefit of RF Eclipse Limited (**RF Eclipse**) (**Manager**), as responsible entity of the Scheme, RF Eclipse has the prime responsibility for obtaining valuations and for the implementation of this policy for the Scheme.

### OBJECTIVE

Specific, objective and robust valuations are needed to ensure the Mortgage Investments are as precise as possible. It is important for investor confidence that suitably qualified independent experts perform the valuations, and that the process is transparent. The development of and adherence to a formal valuation policy assists in addressing the risk that the valuations that mortgage funds rely on are carried out on a variety of bases, with differing assumptions and instructions. These valuations are fundamental to determining how much the Manager may lend.

### SCOPE

The Valuation Policy applies to all properties that are provided by a borrower as security for a Mortgage Investment made by Members of the Scheme through a Syndicate. It is part of the overall lending policy adopted by the Manager and must be read and applied in the context of the Constitution for the Scheme, the Compliance Plan for the Scheme, the *Corporations Act 2001* (Cth) and ASIC policy, particularly the benchmark requirements in *ASIC Regulatory Guide 45 - Mortgage Schemes- Improving disclosure for retail investors*. If inconsistencies or conflicting requirements arise, the Fund's Constitution and the Compliance Plan take precedent over this Valuation Policy.

### POLICY

The Manager maintains a panel of valuers who are proven to be independent, experienced and qualified to perform valuations on scheme property. Each accredited valuer within the firm must supply a CV confirming their qualifications and the firm is required to produce a capability statement that details their experience, speciality areas and, must have adequate professional indemnity (**PI**) insurance and must be independent, including that they must have no pecuniary interest in the Scheme or an asset of the Scheme or a material personal interest in the Manager.

Upon providing this information the valuer is assessed by the Manager as complying with these requirements and is offered a place on the panel of valuers. A register of panel valuers is held by the Manager and updated and maintained by adequately experienced staff.

The Manager is responsible for maintaining the register, following up valuers for copies of their renewed PI insurance policies and notifying valuers if they have been removed from the panel for non-compliance.

## **A. VALUERS**

- (i) The Credit Committee of RF Eclipse is responsible for the appointment of a valuer to the Manager's Panel.
- (ii) The Credit Committee of RF Eclipse require procedures to be followed for dealing with any conflict of interest.
- (iii) The Board of Directors of RF Eclipse requires the rotation and diversity of valuers.
- (iv) A Panel of Valuers must be maintained for the Scheme.
- (v) An annual review of each Panel valuer's insurance and CV must be completed.
- (vi) Any new valuer appointed to the Panel must be identified under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) guidelines and policy.
- (vii) Each valuer must be independent of the borrower and the Manager and be properly qualified, licensed, be a member of an appropriate professional body in the jurisdiction in which the relevant property is located and have not less than five years' experience in valuing properties similar to the security property.
- (viii) The valuer must hold current and adequate professional indemnity insurance.
- (ix) No one valuer may conduct more than one third of the total valuation work for a Scheme based on number or by value of funds. The policy as to rotation and diversity of valuers recognises that it may not be possible at any particular time to achieve the preferred one third position and also in light of the overriding requirements that the valuation meets the competency independence, experience, specialisation and professional indemnity insurance criteria adopted by the Manager as well as the ability of the Manager to rely on the valuation as having been provided for the purpose of the loan.
- (x) In the case of construction loans made in the Scheme, RF Eclipse has a long term practice of using a particular valuation company with an associated Quantity Surveyor to conduct specialised reports which the Manager has found to be most reliable and prudent in the past and at present. This practice shall continue for the specialised construction loans. As most construction loans are repaid early on completion of the building, the valuer's recent work is tested by the sale prices achieved.
- (xi) No valuer may provide more than three (3) consecutive valuations other than for construction loans.
- (xii) A review of the Panel of Valuers by the Manager must be completed on a regular basis.

- (xiii) For the Scheme, no new or non-associated investor maybe placed into a Mortgage Investment where the valuation report is more than six (6) months old.
- (xiv) Any Member in the Scheme may request a copy of the valuation report when considering the information contained in the Syndicate PDS, however, the Manager is the only party who can establish reliance on the valuation.

## **B. PROPERTY VALUATION**

- (i) A written valuation must be provided by an expert valuer for all mortgaged property that provides security for a Mortgage Investment, unless, in the case of the Scheme, it is otherwise provided in the Syndicate PDS.
- (ii) The valuer must be instructed by way of letter based on the set precedent for either standard or construction loans.
- (iii) All valuation reports must be addressed to RF Eclipse and be able to be relied upon by the Manager.
- (iv) The valuation report must include a statement as to whether the valuation complies with all relevant industry standards and codes.
- (v) The valuation report must be in a format which clearly sets out the primary methodology and, if so required, a secondary check methodology.
- (vi) The valuation report must provide details of the last recorded sale price of the property and if possible any other sales in the previous five (5) years.
- (vii) The valuation report must comment as to whether the mortgaged property represents satisfactory security for mortgage purposes.
- (viii) For construction loans made through the Scheme:
  - (a) only a specialist valuer with experience in development and construction valuations may be instructed, and where necessary, a Quantity Surveyor must be instructed;
  - (b) all initial construction valuation reports must include the “on completion” and “as is” value of the mortgage property; and
  - (c) all construction progress payment valuations reports must note the, cost to complete and any deviations to the plans and construction that may impact on the security property.
- (ix) For loans made through the Scheme, RF Eclipse may (in limited circumstances) consider accepting a Valuer General (**VG**) Certificate as evidence of valuation where the LVR is less than 30% of the unimproved value of the security property. Use of the VG certificate in lieu of a valuation report will be disclosed in the relevant Syndicate PDS.

### **C. ON-GOING VALUATIONS AND MARKET REVIEW**

- (i) Where an application for an extension of the term of the loan is received the Manager must consider whether a further valuation will need to be undertaken having regard to the LVR and movement in real property values (generally and specifically in that location).
- (ii) An updated valuation must be obtained:
  - (a) every two (2) years regardless of the movement in real property values.
  - (b) within two (2) months after the directors of RF Eclipse form a view that there is a likelihood that a decrease in the value of security property may have caused a material breach of a loan covenant.
- (iii) The Manager will not necessarily order a new valuation on the renewal of a loan for a term of 12 months or less unless:
  - (a) the existing valuation is close to the two (2) year anniversary;
  - (b) there is a change of investors; or
  - (c) the Credit Committee considers there is a decline in the market that may impact on the security property and LVR that may cause a material breach of the loan covenant.
- (iv) At the discretion of the Manager, valuations may also be obtained when the following occurs:
  - (a) a partial discharge of a security;
  - (b) a material change in the terms of the loan on renewal;
  - (c) information that leads the Manager to believe there may be a variation in the security value;
  - (d) a material change in the nature of the building/property; or
  - (e) a material change in the tenancy/use of the building.

In determining whether there needs to be a re-valuation, the Credit Committee shall take into account a number of factors including the borrower's loan history, the amount of the loan, the LVR, the duration of the extension, any threats to value contained in the initial valuation and other information such as recent sales underlying market conditions and settlements from local agents and valuers.
- (v) All regular periodic valuations must be diarised.
- (vi) The Credit Committee and management must monitor the movement of real property values in specific and general locations and security types.
- (vii) Management must maintain regular discussions with the panel valuers concerning property values.