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MARKETABILITY OF MORTGAGED ASSET & ITS VALUE

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While sanctioning any loan, the banks and financial institutions do credit appraisal of the proposal, wherein they examine following three aspects.

1. Integrity & credit worthiness of the borrower/person behind the proposal
2. Purpose of the loan
3. Security against the loan

Most of the NPAs are due to wrong appraisal of the first two aspects by bank. Wrong appraisal of the person/borrower behind the proposal sometime leads to lending to unscrupulous borrowers who mislead the bank as well as valuers and all stakeholders. Similarly, the appraisal of purpose of loan and its utilization towards the intended use is equally important. If the appraisal of economic viability is based on wrong assumptions and done with reverse financial engineering, the project or business/industry may not generate sufficient cash accruals to service the debt ultimately leading to NPA.

When the account turns NPA, as a last resort banks recover their dues/loan by selling the assets mortgaged to secure the loan and therefore, the value and marketability of the secured asset mortgaged with the becomes most important aspect.

Marketability of any asset has direct bearing on its value. The dictionary meaning of marketability is the quality of being easy to sell; the quality of being attractive to customers. Therefore, some of the bank's prescribed valuation formats ask for the comment of valuer on marketability of the asset. Their intention is to know the attractiveness of the asset to the customers. However, for the mortgage valuation the marketability has a slightly different connotation and the same is being discussed here with respect to its economic concept & legal concept.

Economic concept of marketability for mortgage purpose:

In economic terms every product/project (product is something that is made in a factory and the same can be exported to another geographical location where it is short in supply whereas project is location specific and cannot be exported to other location if it is surplus at one location or imported in case it is short at that locationreal estate is falls in this category) is marketable at its appropriate/market value if that fulfills following three conditions:

1. Usefulness: That is of some use. If useless that will not have value.
2. Scarcity: That is limited. If it is unlimited or in abundance it will lose its value.
3. Transferability: That is transferable from one owner to another

If effort is made to sell the mortgaged asset at a price more than the market value, then there will not be any buyer and if tried to sell at less than the market value it will become more attractive and there will be many buyers competing with each other to buy the same. Therefore, every product/project is marketable at its market value. Even a depressed land in a hinterland will have some value if that can be used put to some use and the value will be proportionate to its usefulness.

Legal concept of marketability:

In legal terms marketability refers to the ownership. Marketable title (real estate) defines the legal right of the owner of property to sell and handover peaceful and vacant possession to the purchaser, as there is no other legal owner. Every valuation for mortgage purpose is done by the valuers under assumption that the title of the property is clear and marketable and owner/mortgagee is in a position to handover peaceful and vacant possession to the purchaser. Any likely hindrance (viz occupant in the property or litigation) in transferring and handing over peaceful and vacant possession renders the title as bad. Every valuation assignment executed by valuer for bank mortgage is conducted after title is found clear and marketable by the law professional of the bank .

In view of above facts, it can be said that any asset is marketable if it is sold at its market value. In other words, the asset will have buyer at its market value and may not have buyer if put for sale on a price more than the market value.