



**FARMER  MAC**

***Collateral Valuation  
Standards & Guidelines***

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# Chapter 101: Collateral Valuation Standards & Guidelines

## CV 101.1 Overview

This Collateral Valuation Supplement (CV Supplement) to the Farmer Mac Seller/Servicer Guide is provided to aid those who obtain or perform collateral valuations:

- Identify the requirements that apply in a valuation assignment, and
- Recognize their responsibility for the integrity and suitability of the collateral valuation information used in a loan or servicing action.

This Chapter is arranged as follows:

Chapter CV101.1 is an overview that applies to all sections of this CV Supplement.

Chapter CV101.2 addresses collateral valuation management and administration.

Chapter CV101.3 states the type of valuation required for various types of loan and servicing actions.

Chapter CV101.4 contains guidance on the minimum scope of work and report content required in all Farm and Ranch property valuations, using a land property model.

Chapter CV101.5 contains guidance on the additional scope of work and report content required when a Farm and Ranch property includes **significant improvements**, such as **permanent plantings (existing or proposed)**, **an existing Rural Residence**, and/or agricultural buildings.

Chapter CV101.6 contains guidance on the additional scope of work and report content required when a Farm and Ranch property is **a Specialized Production Agricultural Facility**, such as an **Agribusiness Property**.

Chapter CV101.7 contains guidance on Farm and Ranch valuation acceptance and review requirements.

Chapter CV101.8 contains guidance on when a collateral valuation update is required, and when Appraisal Report corrections or supplements are required.

Chapter CV101.9 contains Farmer Mac forms that are either required or provided as examples for use in Farm and Ranch property valuations.

Loan servicing-related collateral valuation requirements are in Chapter CV201.

**General Guidance on Terms:**

Terms that have a distinct meaning in this CV Supplement are italicized at the first instance of use. The term definitions are shown below or in the Glossary to the Guide, in a footnote within the Guide, or in the *Uniform Standards of Professional Appraisal Practice (USPAP)*.

Some of the terms defined in USPAP have been modified for use in this CV Supplement, including the terms ***Appraisal, Appraisal Report, Appraiser, and Assignment Results***. Those terms, and other terms with distinct meaning in this CV Supplement, are defined as:

An ***Appraisal*** includes an opinion of value developed by a qualified Appraiser and documented in a written Appraisal Report in compliance with Farmer Mac Standards and Guidelines.

An ***Appraisal Report*** includes the information required to comply with USPAP Standard 2 (including Standards Rules 2-1, 2-2 and 2-2(a) and 2-3), and all additional Appraisal Report Content Requirements stated in Farmer Mac Form 1027A.

An ***Appraiser*** is an individual who meets all of the conditions stated in the USPAP definition of Appraiser and who possesses a current, unrestricted certification as a real estate appraiser (Certified General or, in specific instances, Certified Residential) issued by a jurisdiction with a real estate appraiser licensing and certification program in compliance with Appraisal Sub-Committee (ASC) requirements for such programs. Farmer Mac may, at its sole discretion, grant an exception to the appraiser's state or territory certification requirement under conditions determined appropriate by Farmer Mac.

***Assignment Results*** in an appraisal report for use in a Farmer Mac-related loan transaction are the opinions and conclusions regarding the subject property in the appraisal, including:

1. The legal, physical, and economic characteristics of the property that are relevant in its market, including the income producing characteristics of the property,
2. The characteristics of the market for the subject property (e.g., supply/demand, competition, trends, etc.) and the opinion of probable change in those factors in the foreseeable future,
3. The highest and best use of the property,
4. The Market Value for the property, As Is, as of a current date, and (if the property includes proposed permanent plantings),
5. The 'As If Complete, Current Market Value' under the hypothetical condition that the proposed planting is mature (at Stabilized Income) as of the current date, and a 'Prospective Market Value, at Stabilized Income' as of the future date when the proposed planting is expected to be at mature yield levels under the extraordinary assumption that the proposed planting will be accomplished in accordance with a credible planting development plan that was approved by the lender offering the loan to Farmer Mac.

***Market Sale*** is a documented and verified transfer of a full (not fractional) ***real property ownership interest*** between unrelated parties under conditions consistent with the definition of ***Market Value***.

Note: If a sale between unrelated parties involves conditions that are not consistent with those stated in the definition of **Market Value** (see below), the difference(s) must be reflected in the analysis of the sale to result in an indication of a cash- equivalent market price.

A transaction between parties that are related by family or legal-entity bonds (e.g., inter-family or inter-company transfers) is not acceptable as a **Market Sale** in the market analysis in an appraisal completed for use in a Farmer Mac loan or servicing action without substantial and convincing support to demonstrate that the transaction is equivalent to a **Market Sale**.

**Market Value** means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. \*

\*This definition is the same as the definition of Market Value published in the Federal Register on July 5, 1990 by the Board of Governors of the Federal Reserve System pursuant to Title XI of FIRREA.

Note: In an appraisal involving personal property as well as real property, the definition of value for the personal property may be a modified version of the Market Value definition for real property stated above.

**Real Property Ownership Interest Appraised** refers to the condition of title to the proposed collateral appraised for use in a Farmer Mac-related loan transaction – The ‘subject property’ in the appraisal. The title condition may occur in three forms (at times, the ownership may include a combination of two or all three):

**Fee Simple** refers to ownership of title that is comprised of all of the ‘rights’ inherent in the physical real estate. Such ownerships are usually considered a ‘whole’ interest while the other two (Leased Fee and Leasehold, described below) are considered ownerships of a ‘partial interest’.

Note that an absolute Fee Simple title condition is rare because in many cases the fee simple estate is encumbered with various easements, such as for roadways and/or utility structures (on the surface or underground). Such easements are

commonplace and, while the appraiser should note and comment on them (as to whether they have a beneficial, neutral, or adverse effect on the property use and marketability), they are commonly accepted without a requirement for subordination to a mortgage. In such cases the Real Property Ownership Interest Appraised should be simply stated as 'Fee Simple' in the appraisal report.

Other types of easements, such as conservation, open space, or wetlands' easements significantly limit the property uses and, depending on the specific terms of the easement, usually create a partial interest title condition. In many cases, such easements cannot be subordinated to a mortgage. When such easements are present the Real Property Ownership Interest Appraised should be stated as 'A (An) [state the type] Easement Encumbered Fee Simple' in the appraisal report and a copy of the easement (or a summary of the easement terms/conditions) must be included in the report Addenda.

**Leased Fee** refers to an ownership of all of the rights inherent in the physical real estate that are not conveyed to a tenant under a (written or verbal) contract for tenancy that extends beyond one-year. Such ownerships are considered a 'partial interest' because a portion of the property rights under a Fee Simple title condition are no longer held by the underlying land owner. The terms and conditions of the lease must be analyzed as part of the appraisal and a copy of the lease (or a summary of a written lease or of a verbal lease) must be included in the report Addenda. In such cases the Real Property Ownership Interest Appraised should be simply stated as a 'Leased Fee Estate' in the appraisal report.

Note that a Leased Fee title condition might also be subject to the same easement encumbrances described above under Fee Simple. In such cases the Real Property Ownership Interest Appraised should be stated as 'A (An) [state the type] Easement Encumbered Leased Fee Estate' in the appraisal report.

**Leasehold** refers to an ownership of all of the rights inherent in the physical real estate that are conveyed to the tenant under a (written or verbal) contract for tenancy that extends beyond one-year. Such ownerships are considered a 'partial interest' because a portion of the property rights under a Fee Simple title condition are held by the tenant. The terms and conditions of the lease must be analyzed as part of the appraisal and a copy of the lease (or a summary of a written lease or of a verbal lease) must be included in the report Addenda. In such cases the Real Property Ownership Interest Appraised should be simply stated as a 'Leasehold Estate' in the appraisal report.

**Significant Adjustments** are adjustments made to comparable sales that exceed 5% of the total sale price. Specific comments in support of the adjustment are required when such adjustments are used in the sale comparison analysis.

**Significant Improvements** are improvements that contribute more than 10% to total property value. Examples include irrigation, permanent plantings, and/or buildings.

**Valuation** includes appraisal, appraisal review, appraisal consulting and collateral valuation updates completed for use in a Farmer Mac loan or servicing action.

Other terms defined in USPAP and used in this CV Supplement have the meaning given them in USPAP. For example, Assignment, **Assumption**, **Limiting Condition**, **Extraordinary Assumption**, and **Hypothetical Condition** have the meaning stated in the Definitions Chapter of USPAP.





## CV 101.2 Collateral Valuation Management and Administration

### A. General

**Objective** – Farmer Mac’s objective is to reasonably ensure Sellers and Servicers obtain candid, impartial, and reliable information about the property that serves or is to serve as security (the “security property”) for a Farmer Mac loan.

The valuation function includes:

1. Selection and engagement of qualified appraisers;
2. Developing appraisal assignment results and documenting those results in a written report;
3. Appraisal Report acceptance; and
4. Collateral Valuation Quality Assurance Procedures, such as Appraisal review.

**Note:** For Farm and Ranch and Specialized Production Agricultural Facility products, the Seller is responsible for #1 and #2. Sellers and Farmer Mac’s Credit Underwriting and Collateral Valuation units jointly handle #3 and #4, as described in Chapter CV101.7 – Collateral Valuation Acceptance, Appraisal Reviews and Performance.

**Collateral Valuations for Use in Loan Underwriting** – Collateral valuation information is necessary to:

- Identify the “Value” in the Loan-to-Value ratio,
- Assess the security property’s contribution to the borrower’s debt service capacity and financial strength, and
- Identify and understand the security property’s market characteristics and risk, such as when a property is:
  - Not typical in size, location, or use in its market,
  - Adversely affected by access, irrigation or drainage conditions, or
  - A property with significant improvements (structures or plantings) with remaining economic lives shorter than typical loan terms or with unstable productivity.

**Balance** – The requirements stated in this supplement rely on the use of sound business judgment to ensure that the work requested and performed is not excessive or deficient in a given transaction, property, and market situation.

Open communication between the party obtaining the valuation and the appraiser, at the beginning and over the course of performing the valuation, is essential to avoid unnecessary time and expense.

**Farmer Mac Requirements and Uniform Standards** – Appraisals completed for loans submitted to Farmer Mac must conform to the requirements stated in this CV Supplement, which include compliance with the USPAP edition in effect as of the date of the Appraisal Report.



**Exceptions** – These collateral valuation requirements are designed to address most issues that arise in appraisal assignments. If the circumstances in a specific assignment are not addressed, the appraiser should discuss the issue with his or her client or employer (e.g., the Originator, Seller, or Servicer). Sellers and Servicers, in turn, are encouraged to contact Farmer Mac to determine whether an exception to a requirement is warranted.

## **B. Independent Collateral Valuation Function**

The collateral valuation function must be independent of all other functions associated with the loan decision-making process. Accordingly, the processes of obtaining and performing collateral valuations must be conducted or administered by a qualified individual who meets the following criteria:

- Is not associated, except by the engagement for the appraisal, with the credit underwriters who make the loan decision, though both the appraiser and the credit underwriter may be directly or indirectly employed by a common employer,
- Receives no financial or professional benefit of any kind relative to the report content or valuation, or the credit decisions made or based on the appraisal assignment results that would result in a violation of the Ethics Rule in USPAP, and
- Has no present or contemplated future direct or indirect interest in the subject property in the appraisal.

The intent of the functional independence requirement is to ensure separation of the appraiser from direct control or influence by (1) individuals connected with loan production or marketing functions and (2) individuals with present or prospective ownership interests, while permitting the selection of qualified appraisers.

## **C. Collateral Valuation Management Responsibility**

The Seller has primary responsibility for management of the collateral valuation procurement function. Sellers are expected to develop, implement, and maintain collateral valuation policies that ensure:

1. The collateral valuation function is conducted and administered by qualified individuals.
2. Appraiser qualifications are verified and documented.
3. Appraiser engagements in assignments are based on the individual's competency as well as capability to provide timely, economic service in compliance with the requirements that apply in an assignment.

**Note:** Except by Farmer Mac's prior approval, Sellers must obtain collateral valuation information from Certified General or, in specific instances, Certified Residential appraisers in those states or territories that have real property appraiser licensing or certification programs in compliance with Appraisal Sub-Committee (ASC) requirements.

Farmer Mac's prior approval does not constitute its certification of the appraiser or substitute for the Seller's responsibilities under its Agreement. The Appraisal Sub-Committee (ASC) of the Federal Financial Institutions Examination Council

(FFIEC) maintains a registry of licensed or certified real estate appraisers on its website at [www.asc.gov](http://www.asc.gov), to check an appraiser's license or certification status.

4. Appraisers provide uniform and candid reporting of credible and reliable opinions of **Market Value** and, when applicable, estimated **Gross and Net Property Income** (based on Owner-Operator or **Market Rent**), and information on the characteristics of the subject property and the relevant market forces.

**Note:** See Chapters CV101.4 and CV101.5 for guidance on **Net Property Income** and **Market Rent**.

5. Sellers assist Farmer Mac in the process of ensuring valuations meet expectations established in the engagement process and identify apparent departures from Farmer Mac requirements.

**Note:** For Farm and Ranch, and Specialized Production Agricultural Facility (including Agribusiness property) loan products, the collateral valuation acceptance and quality assurance processes may be accomplished by Farmer Mac's internal staff or by use of Farmer Mac- contracted service providers. See Chapter CV101.6 for Farm and Ranch and Specialized Production Agricultural Facility property requirements.

A management representation and warranty by a Seller, adopting Farmer Mac's Standards and Guidelines, is required for participation in the loan purchase program.

Sellers provide an electronic file version of the original Appraisal Report, with exhibits in color (not black/white) to Farmer Mac's Credit Underwriting unit via AgPower®. A paper copy of the report may be required of the Seller at Farmer Mac's sole discretion.

**Note:** If the valuation was obtained by an Originator, the Seller is also required to document its acceptance of the valuation report in the loan file or, in the alternative, complete an appraisal review.

**Paper Reports and Electronic Files** - Farmer Mac requires an electronic version of the Appraisal Report, in Adobe Acrobat (PDF) format. However, the party that engages the appraiser (Originator, Seller, or Servicer) is expected to retain one paper copy with original signatures and may require additional paper originals or copies of the report.

The party engaging the appraiser (Originator, Seller, or Servicer) shall specify the number and type (originals and copies) of paper reports and the type of media or method of transmission for electronic files in the process of engaging the appraiser (see Farmer Mac Form 1023A – **Sample Fee Appraiser Engagement Letter**).

**Appraisal Service Companies** – Subject to Farmer Mac's prior approval, a Seller or Servicer may elect to contract with an appraisal services company to obtain collateral valuation services. In such instances, the Seller or Servicer is to remain the appraiser's client in an appraisal assignment although the appraisal service company may be acting as agent for the Seller or

Servicer under the terms of a contract between the Seller or Servicer and the appraisal service company.

#### D. Engagement of Appraisers

**General** – The first and best assurance of acceptable collateral valuation quality is the engagement process. The client (Originator, Seller, or Servicer) must communicate to the appraiser the:

- Use and purpose of the appraisal,
- Definition of value to be used in the assignment,
- Physical property to be appraised,
- The condition(s) of title (***Real Property Ownership Interest Appraised***) to be reflected in the appraisal (e.g., Fee Simple, Easement Encumbered Fee Simple, Leased Fee, or Leasehold, etc.),
- Intended use and intended users of the assignment results, and
- Standards and requirements that apply in the assignment.

This effort prevents misunderstandings and subsequent delay and cost to correct errors or omissions.

**Direct Engagement by an Approved Seller or Originator** - Sellers are expected to use a formal appraiser engagement process designed to record and communicate the appraisal requirements to the appraiser.

A Sample Fee Appraiser Engagement Letter (Farmer Mac Form 1023A – Farm and Ranch and Specialized Production Agricultural Facility Property) is included in the Forms Chapter of the Guide, on the Farmer Mac website in the [Resource Library](#), and is also available in the Documents tab of Approved loan status in AgPower.

When the appraiser is an independent contractor (fee appraiser) the engagement contract must be documented in writing. The contract may be on an annual or assignment-by- assignment basis. If the engagement is based on an annual contract, the written documentation for an individual assignment must reference the annual contract.

**Note:** The entity that engages the fee appraiser may use its own letter of engagement or equivalent correspondence provided it addresses each of the points in Farmer Mac Form 1023A.

#### E. Appraisals from Third Parties

Farmer Mac will not accept for use in a Loan Purchase or Purchase Commitment transaction any appraisal engaged directly by a loan applicant, borrower or any agent of a loan applicant or borrower (accountants, attorneys, real estate brokers, etc.).

However, appraisals for which applicants or borrowers have paid, but have been completed by an appraiser engaged directly by another lending institution may be accepted subject to the guidelines set forth below.

Farmer Mac may, in its sole discretion, accept for use in a Farmer Mac-related transaction an appraisal that conforms to Farmer Mac's Collateral Valuation process and report content standards and guidelines when the Seller (or an Originator selling through a Seller) provides a copy of the original appraisal report with any supplements needed to comply with Farmer Mac's requirements, and written confirmation that:

- The appraisal was completed by an appraiser (or appraisers) directly engaged by a lending institution other than a Seller or an Originator selling through a Seller,
- The Seller (or an Originator selling through a Seller) has obtained rights to use the appraisal report from the original Client (lending institution) and established a Client relationship with the original appraiser/s,
- The Seller (or an Originator selling through a Seller) has reviewed the Appraisal Report and verified:
  1. The appraisal was not obtained by or performed for the loan applicant or borrower or an agent of those parties:
  2. That the report:
    - a. States that the intended use of the appraisal is agricultural property secured lending, and that the lender and Farmer Mac are "intended users" of the Appraisal Report.
    - b. Has a Date of Value not more than 365 days prior to Farmer Mac's purchase of the loan.
    - c. Conforms to the lender's appraisal policies and the regulations under which the lender operates, as well as Farmer Mac's collateral valuation standards and guidelines (which include compliance with USPAP).

Note that if the Seller's (or Originator's) review results in the need for additional information, analyses, or appraisal report content, the Seller/Originator may find it necessary to re-engage the original appraiser/s to obtain a supplement to the original appraisal report, or obtain a new appraisal report.

The new appraisal report may be obtained from the original appraiser/s or a different appraiser.

If the new appraisal report is obtained from a different appraiser and that appraiser uses the original appraisal report as a source of information used in the new appraisal report, compliance with the Confidentiality section of the Ethics Rule in USPAP must be ensured.

## **CV 101.3 Minimum Requirements**

Collateral valuation requirements for individual loan transactions differ according to the type of transaction – New Loan, Servicing Action, the purchase of a Seasoned Loan, or the purchase of a group of loans or a Standby Commitment to purchase a loan within a group of existing loans.

The requirements stated or referenced in this Chapter concern collateral valuations for individual loan or servicing actions.

See Chapter CV101.8-B for collateral valuation update requirements that apply to the purchase of a group of existing loans or a Standby Commitment to purchase a loan within a group of existing loans, and when Appraisal Report corrections or supplements are required.

### **A. New Loans (Loan Purchase)**

Farmer Mac requires an appraisal that is submitted in support of the collateral value in the loan be:

- Obtained by the Seller or its originator,
- Completed by a Certified General R.E. Appraiser or (if the highest and best use of the proposed security is as a rural residential use property AND the property is improved with an existing residence with significant contributory value) a Certified Residential R.E. Appraiser,
- Developed and communicated in an Appraisal Report in compliance with USPAP and Farmer Mac's Collateral Valuation requirements, and
- With a date of value not over 12 months prior to the date of loan purchase.

Notwithstanding the 12-month age of appraisal allowance, Farmer Mac may, at its sole discretion, require an update of an appraisal submitted to support a Loan Purchase loan.

**Note: Improvements Completion Verification** – The appraiser that developed a valuation that involves proposed improvements or modifications to a property must, whenever possible, be the person that verifies that the proposed improvements or modifications have been completed in accordance with the conditions and requirements for such work stated in the Appraisal Report.

### **B. Seasoned Loan Purchase**

(See Chapter 202.7 in the Seller/Servicer Guide for seasoned loan criteria.)

The Seller's loan submission must include an Appraisal Report that was completed in compliance with the Seller's policies and criteria at the time the loan was originated. Farmer Mac will allow the Seller to update the property and market trend information using a Collateral Assessment Report (CAR) Farmer Mac Form 1047.

If the CAR indicates a stable or positive market trend and no negative change in the loan security, the value and property data in the most recent valuation may be used.



If the result of the CAR indicates a new appraised value is recommended or required, use the criteria in Chapter CV101.3 (A) to obtain a current value indication for the loan security.

### **C. Standby Loans (Long Term Standby Purchase Commitment)**

The appraisal supporting a loan submitted for the Standby program must have been obtained by a financial institution that was under regulatory jurisdiction of the FCA or an agency obligated to comply with FIRREA Title XI. The Appraisal Report must have been completed in compliance with the institution's policies and criteria at the time the loan was originated.

Farmer Mac may, at its sole discretion, require the institution to provide a valuation update of the property and market trend information.

If the valuation indicates a stable or positive market trend and no negative change in the loan security, the value and property data in the most recent Appraisal Report may be used.

If an Evaluation report is used, that report should include:

- 1) A plat showing the parcel(s) and, if irrigated, where the water source is located (If the water source is 'off-site' the report must contain documentation of the rights to the water supply and its conveyance components, easements for maintenance, etc.)
- 2) A map showing the location and configuration of the parcel(s) (especially the access and linkage relationships)
- 3) A map showing the location of the sales used to support the value, sufficient to find the sale property (address, reference to cross-roads, etc.)
- 4) A copy of the evaluator's resume along with a signed and dated certification that (1) he/she meets the competency/qualification requirements stated in the applicable FIRREA Title XI regulations and Inter-Agency Guidelines; (2) Meets the independence requirements stated in the Inter-Agency Guidelines; and (3) Was engaged (by employment or contract) by a party that meets the independence requirements stated in the Inter-Agency Guidelines.

### **D. Loan Servicing Actions**

The collateral valuation requirements that apply in a Servicing Action differ according to the situation that prompts the need for servicing, as summarized below.

#### **Performing Loans:**

Contact the Central Servicer for guidance before engaging an appraiser on Partial Release applications that are nominal in relation to the total remaining collateral value.

A Direct Market Sales Comparison Approach or an Income Approach, whichever provides the most credible and reliable basis for the market value conclusion, is required in an

Appraisal. A Cost Approach is also required when a property has improvements (structures or permanent plantings) that contribute more than 10% to total property value.

The “subject” of the appraisal must be the property remaining as security following the proposed change in the original collateral.

#### **Non-Performing Loans:**

Review the Farmer Mac Seller/Servicer Guide Chapter 403 and Chapter CV201 of this CV Supplement, and consult with management prior to initiating a valuation update or new appraisal.

## **CV 101.4 Farm and Ranch Property Appraisal Requirements – Land Property**

**General** – This Chapter 101.4 provides guidance on the minimum scope of work (research and analysis) and report content requirements that apply when the appraised property is land without significant planting or building improvements.

See Chapter CV101.5 for guidance and requirements when the property to be appraised includes significant planting or building improvements. The guidance in this Chapter is presented in the sequence of obtaining, developing, and documenting an appraisal.

**Overview** – In summary, Farmer Mac expects the appraiser’s scope of work in a land property appraisal to include, as a minimum:

- Identification, based on information provided by the lender/client, of the condition(s) of title to be reflected in the appraisal (e.g., Fee Simple, Easement Encumbered Fee Simple, Leased Fee, or Leasehold, etc.)
- An on-site inspection of the property,
- Property research, including its historical uses and existing use, to identify physical and economic characteristics of the property that are significant in its market,
- Development of a highest and best use conclusion for the property, considering its legal, physical, and economic characteristics in terms of market demand (including an analysis of the property’s income producing capacity and reporting of that analysis result with an estimate of the Gross and Net Property Income for all properties except a ‘Lifestyle Ranch’ property),
- Market research, including confirmation and verification of relevant market sales, and analyses of those sales to develop and support a credible value conclusion, and
- Documentation of the appraisal assignment results in an Appraisal Report that contains sufficient information for the intended users to understand the appraisal development process and the appraiser’s support for the property and value conclusions.

Note: A Direct Market Sales Comparison Approach or an Income Approach, whichever provides the most credible and reliable basis for the market value conclusion, is required in an Appraisal. If an Income Approach is completed, the capitalization rate must be



supported by an analysis of market sales. Also, the report must be an Appraisal Report as that term is defined in CV 101.1, not a Restricted Appraisal Report.

### **A. Selecting and Engaging the Appraiser**

The appraiser for a land property appraisal must be:

- State-licensed as a Certified General Real Estate Appraiser;
- Have experience that reasonably assures he or she is able to complete the appraisal assignment competently in response to Farmer Mac's requirement for a candid, impartial, and reliable appraisal.

The appraiser must have specific education and experience in the type of property involved. The client is expected to consider an appraiser's overall credentials when making the selection and assignment decision. Matching the appraiser's abilities with the complexity of the work involved is a critical step in avoiding excessive cost as well as unnecessary loss of time due to deficient work.

If the client does not have experience with the appraiser's work, the client (or a party acting as agent for the client, such as an appraisal service company) is expected to verify that the appraiser's Certified General Real Estate Appraiser status is current and unconditional by checking the National Appraiser Registry at [www.asc.gov](http://www.asc.gov), and conduct sufficient research and verification to reasonably determine that the appraiser is competent to complete the appraisal assignment. See Ch. CV101.2-E for additional guidance and requirements.

### **B. Scope of Work**

The appraiser must determine the appropriate appraisal research and analysis methods and techniques to use in developing and analyzing the property and market information in support of the valuation assignment results (i.e., the scope of work). This information must include the characteristics of the subject property that are significant in its market, the characteristics of that market, relevant and necessary market sale, cost, and income data, and the result of analyzing the information.

When the market's response to the subject property is most consistent on the basis of the property's income producing characteristics, an Income Approach is required.

Note: If an Income Approach is not completed in an appraisal, the property's income producing capacity must be addressed in the course of developing the highest and best use conclusions, as part of identifying and analyzing the property's economic characteristics.

The scope of work to be applied in developing appraisal opinions and conclusions can and should vary according to the volume of the loan, the characteristics of the property and its market, and the intended use of the assignment results (e.g., new loan, servicing action, or purchase of seasoned loans).

An appraiser is required to perform the scope of work in an assignment that is necessary to develop credible and reliable assignment results, given the intended use of those results.

When the property and its market are straightforward and the property is well matched to the market, the appraisal and its report should be equally simple. However, as the diversity or complexity of the physical or economic characteristics of a property increase, or when the property is not typical in its market, the scope of work and report content is expected to reflect those conditions.

An appraiser is expected to discuss with his or her client or employer any situation that might warrant an exception to Farmer Mac's requirements in an assignment. The Seller/Service is expected to contact Farmer Mac to discuss exceptions to Farmer Mac's requirements and request prior approval when appropriate.

### **C. Assumptions and Limiting Conditions**

Except as stated below, the Assumptions and Limiting Conditions acceptable to Farmer Mac in an appraisal (which must be included in the Appraisal Report) are those illustrated in Farmer Mac Form 1037, or an equivalent form may be used subject to approval by the Farmer Mac Seller, as documented in the Form 1037B. (See Chapter CV101.9)

If the Client in an appraisal assignment believes there is a need for the appraiser to apply other assumptions and limiting conditions, or to use extraordinary assumptions or hypothetical conditions in an assignment, those must be stated in written documentation addressed to and acknowledged by the appraiser as acceptable for use in the assignment (i.e., Form 1037B).

If the appraiser believes there is a need to apply any other assumption or limiting condition in the assignment, or to use any extraordinary assumption or hypothetical condition, the appraiser must:

- Contact the Client to obtain its prior agreement, and
- Include in the report a clear disclosure and explanation of each additional assumption or limiting condition, or extraordinary assumption or hypothetical condition. A copy of correspondence from the Client documenting its prior agreement (See Form 1037B) must be included in the report.

### **D. Research and Analysis Requirements**

#### **1. Subject Property**

**Legal Characteristics:** In most instances, the information about the subject's legal characteristics will be based on a preliminary title report or other public record (or recordable) document that should be provided to the appraiser at the onset of the assignment.

Note: If such a source document is not available, the appraiser is expected to communicate with the client to be reasonably certain that the property appraised will match the property that is to serve as loan collateral.

The information must include the type of ownership to be appraised (Fee Simple, Easement Encumbered Fee Simple, Leased Fee, or Leasehold, or a combination of

these), and include the terms and conditions of any leases and a summary of any known easements or similar encumbrances.

Note: The ownership interest descriptions provided in the General Guidance on Terms section in CV 101.1 address the ‘quality’ of title, whether the Ownership Interest is a ‘whole’ (Fee Simple) or a ‘partial’ interest in the bundle of rights inherent in the ownership of title to the physical real estate.

The ‘quantity’ of an Ownership Interest is a different matter, dealing with the percentage of ownership one party has, which might be a ‘full’ (100%) ownership or a ‘fractional’ (less than 100%) ownership.

The proposed security (real property collateral) in a Farmer Mac-related loan must be a ‘full’ (not fractional) ownership of a Fee Simple, Easement Encumbered Fee Simple, Leased Fee, or Leasehold Estate or a combination of those.

The property’s physical legal description must be provided to the appraiser by the client as part of the engagement process whenever possible. If that description is not available from a preliminary title report or a public record, the appraiser may use an Assessor’s Parcel Map, Tax Map, Preliminary Parcel Map, Survey, or other similar document as a substitute. However, doing so will require the use of an extraordinary assumption that the document used accurately represents the subject’s actual physical legal description. Also, this situation will require confirmation to Farmer Mac by the client that the legal description used in the security instrument matches the physical legal description used in the appraisal.

**Legal Limitations** – Information regarding the in-place zoning or land use regulations or contracts that affect property utility must be researched and analyzed to identify and understand how those legal limitations affect the property use.

**“As Is” and “Current Value Opinion”** – The appraiser is to analyze the property “As Is” and as of a current date, using analyses methods and techniques that indicate the market’s most probable response to the property as a unit, from one seller to one buyer in one transaction.

**As Is** means the subject property is valued in its actual physical condition and subject to the zoning and use regulations in effect as of a current date (**Current Value Opinion**).

Note: If the subject property is not marketable in its actual condition, or the in-place use is not a legal use (for example, due to property use above a legally permitted capacity, or a property use that requires a permit when no permit was obtained) the appraiser may, after obtaining written prior agreement and authorization by the client, use a Hypothetical Condition to analyze the property and develop the Current Value Opinion.

Likewise, if the assignment includes analyzing the subject property under the Hypothetical Condition that a proposed development or improvement project has been completed as of a current date that opinion of value is acceptable in addition to, but not in place of, the As Is - as of a current date opinion of value. See the Definition Chapter of USPAP for the meaning of Hypothetical Condition.

If the assignment includes analyzing the property as it will exist once a proposed development or improvement project is completed the value opinion as of the future date, when the development or improvement project is complete under an Extraordinary Assumption, is a Prospective Value Opinion. Such an opinion of value is acceptable in addition to, but not in place of, the As Is - as of a current date opinion of value. (See the Definition Chapter of USPAP for the meaning of Extraordinary Assumption.)

**Physical Characteristics:** Farmer Mac expects the information about the subject's physical characteristics to be based primarily on the appraiser's observations during an on-site inspection except when assignment conditions prevent an on-site inspection.

Note: The appraiser's inspection is expected to be in a manner similar to how typical buyers would inspect the property, but not at the level of an expert that a buyer might employ to identify or resolve technical issues, such as in areas of engineering, agronomy, or environmental sciences.

When assignment conditions do not allow an on-site inspection, such as due to a lack of peaceful or lawful access, the appraiser may, with the client's prior authorization and with proper disclosure in the report (including any extraordinary assumptions), use public or other records that the appraiser determines reasonably reflect the actual property characteristics that are relevant in the assignment.

The physical characteristic's information researched, analyzed, and reported must include, as applicable to the property and consistent with the significance of the information to understanding the property and its value:

**Location** – The physical address and (when available) the GPS reference for the location of the subject property.

Note: The Federal Financial Institutions Examination Council (FFIEC) provides a convenient source of GPS (Global Positioning System) references at its website for any property with an address in the Continental United States. The website address is [www.ffiec.gov](http://www.ffiec.gov) The FFIEC has included demographic and economic data from the Bureau of the Census, Census Tract Data Base associated with the GPS referenced location.

**Property Access** – Identify and report the legal and (if different from the legal) physical access route from a public road.

**Subject and Adjacent Property Uses** – The land use areas within the subject property. Also, identify and report the property uses on adjacent parcels.

**Water Supply and Use** (including, when applicable, the subject's water supply sources, pumping plants, pipelines and irrigation district outlets, distribution, and drainage system component locations) – The appraiser's client is to provide, when available, the applicant-completed Farmer Mac Form 1013A (Irrigation and Drainage Supplement) to the appraiser at the onset of the assignment.

**Irrigated Property Note:** If the subject property is irrigated, the appraiser must specifically identify, analyze, and provide a summary of the information and analysis in the report concerning --

**Irrigation Equipment** - The appraiser is to identify, whenever possible, the make and model of the irrigation equipment, and identify and report the condition and estimated remaining economic life.

**Irrigation Water** - The appraiser is to specifically analyze and report the subject's irrigation water situation, including:

- **Quantity** (sources and adequacy of the water supply to meet the actual or planned cropping pattern);  
Note: If the subject property receives irrigation water from a Federal Project, the client is to determine whether the property includes irrigated land in excess of Bureau of Reclamation limitations and provide that determination to the appraiser.

The analysis in the appraisal is to reflect the eligibility of the property to receive federal project-source irrigation water accordingly.

- **Stability of Supply** adequate to meet the actual or planned cropping pattern;  
Note: In areas experiencing drought or drainage problems, or where legal/regulatory actions create uncertainty as to the stability of supply, the appraiser must be provided with complete information (as is practically available to the applicant, borrower, owner, or lender) on the status of water rights and contracts, and drainage facility or entity conditions at the onset of the appraisal assignment. The appraiser must specifically analyze the information provided, together with other material information researched by the appraiser, and reflect the result in the market analysis.

If the subject property includes significant permanent plantings, see the Permanent Planting Improvements sub-section in CV 101.5 regarding the requirement for a Water Budget.

- **Cost** of water and reasonableness of costs relative to current or intended property use;



- **Quality** of water (any detrimental aspects such as salts, nitrates, etc.);
- **Drainage** adequacy, including the condition and effectiveness of private or public agency drainage or flood control facilities designed to protect the property use.

The analysis is to be based upon an examination of all available permits, agreements, etc., pertinent to the delivery of water, its use, and its drainage.

**Soil** – The soil quality and productivity information must be identified and analyzed, and the result of that analysis reported in a manner that is consistent with the significance of soil quality to value.

Note: Except when necessary to describe an adverse soil condition, the report should not include reprints of material in published Soil Studies. Such information should be referenced or summarized when necessary.

**Hazard Area(s):** Identify the location of known hazards, such as environmental contamination sites, ground-fault hazards, or flood zones on or adjacent to the subject property, and analyze and report the impact of such areas on the property utility and market appeal.

**Potential Liabilities Note:**

**Environmental Concerns:** These include hazardous waste or other observed conditions, which must be identified and analyzed. A Farmer Mac Environmental Disclosure (Farmer Mac Form 1010A) is to be completed and signed by the property owner or his/her representative and a copy provided to the appraiser. The appraiser is to identify whether or not the information contained in the report is consistent with what he/she observed during the inspection of the property and, if it is not, the appraiser is to specifically identify the variances. The Seller is expected to review the information provided by the property owner or his/her representative and the appraiser to determine whether the collateral is acceptable Farmer Mac loan security (per Seller/Service Guide Part 3-18, Para. 26). Equivalent disclosure forms may be used.

**Flood Zone and Flood Map:** The appraiser is to research and identify any flood zone that affects the subject property and reflect the effect of any such zone in the analysis of the subject's utility and market appeal, and summarize that result in the Appraisal Report.

**Subject Property Use and Economic Characteristics:** At the time of the assignment engagement, the appraiser should be provided with information regarding the current and historical use and productivity of the subject property.

The appraiser is to research and analyze such historical information, covering a sufficient time period to understand the property's use, productivity, and economics and to understand how that history affects the property's income producing capacity, market appeal, and value.

**Real Estate Taxes and Assessments:** The appraiser is to identify and include in the report a summary of the current county tax assessment and the annual property taxes, and include that information in the analysis of the property use economics.

Note: In some real estate tax jurisdictions, the assessed value and real estate taxes are adjusted to market level upon sale of the property. If the subject's real estate taxes are likely to change significantly following the sale of the property, the appraiser must address the change in the analysis of the property's economic characteristics.

**Market and Location Characteristics:** The appraiser must identify and analyze relevant information regarding the market for the property and its location.

The geographic, demographic, and economic information must be sufficient to identify and understand current market conditions, market trends, supply/demand balance and competition, and the subject's location strengths and weaknesses.

The analysis and report must clearly indicate how the subject property relates to the typical property in its market and in its location (e.g., similar to, inferior to, or superior to the typical in size, productivity, operating economics, condition, etc.), to ensure the report reader understands whether the subject property is similar or significantly different than the typical property in its market area.

**Highest and Best Use Analysis:** The appraiser must analyze sufficient information to identify the subject's highest and best use **from the market's point of view (e.g., in the eye of a typical buyer)**, and include a summary of the highest and best use analysis results in the Appraisal Report.

Note: The highest and best use opinion is expected to be as specific as possible. Stating 'Agriculture' as a highest and best use is not sufficient.

The depth and detail of the appraiser's highest and best use analysis must correspond to the complexity of the legal, physical, and economic issues involved.

For example, if a property is located in a well-established and stable production zone for the use in-place, and that use is not likely to change, the data and analyses need not be extensive. In such a situation, supporting the conclusions by observation of the facts is adequate. However, when land use change potentials or alternatives are present, and the market is recognizing such change or alternatives, the analyses must be comprehensive and conclusive.

In cases where the subject property contains specialized crop, livestock facilities, or permanent plantings, the analysis must include industry-specific economic data on trends, growth or shrinkage, marketing conditions, etc. (See Chapter CV101.5 for requirements applicable to improved property.)

**Income Producing Capacity:** Except for a 'Lifestyle Ranch' property, the appraiser is to identify economically feasible uses in the process of the Highest and Best Use analysis, and



include in the report the appraiser's estimate of the property's gross and net income producing capacity.

**Net Property Income (NPI)** (defined in the Glossary) must be based on foreseeable future as well as relevant historical property productivity and reflect typical, competent management. The appraiser shall analyze the characteristics of the subject property, including its historical and foreseeable future productivity and price pattern for the primary commodities produced.

The NPI may be developed and reported on an owner/operator premise or on a Share Rental or Cash Rental premise.

**Note:** Rental Income -- When the subject property (1) has rental appeal in its market and (2) buyers and sellers decide value primarily or in part on the basis of property income, the appraiser must develop and report an estimate of market rent. This information is necessary for identification of risk related to an owner/operator versus rental source of the income.

**Market Rent** is a type of market value, which, in the context of Farmer Mac Collateral Valuation Standards and Guidelines, is the value of the right to use all or part of a property for a defined period (rather than in perpetuity) under specified terms and conditions. The process of developing and supporting an opinion of **Market Rent**, whether on a Cash Rental or a Share Rental premise, is similar to the process for Market Value.

**Note:** The Income Approach page in the UAAR form set provides an illustration and summary of the income and expense data and analyses (see the UAAR version of the Farmer Mac Form 1035). Other forms or a narrative style report may be used, but the income producing capacity information analyzed and reported must not be less than as illustrated in the Income Approach page of the UAAR form set. An Excel version of the Farmer Mac Form 1035 is available for use in a narrative style report.

**Report Note:** If an Income Approach is not completed in the appraisal, the Highest and Best Use section of the report must contain a summary of the appraiser's estimates of Gross and Net Property Income, and indicate the basis for the income estimates (i.e., Cash or Share Rental, or Owner/Operator, or a combination of these).

## **2. Market Value Analysis**

The market information researched and analyzed to develop and report the appraiser's opinions and conclusions must, at a minimum, include the data typical market participants would recognize as relevant and significant to value, including market trends.

**Market Sale Verification Criteria** - Verification includes confirmation of the terms and conditions of sale by contact with a principal in the transaction (buyer, seller, broker, agent, or other similar parties) or confirmation that the transaction information was verified by or at the direction of a certified appraiser functioning in compliance with the Ethics and Competency Rules in USPAP. The report is to include information identifying the source of the transaction data and the telephone number of the party contacted for verification or confirmation of the sale.

**Market Sale Analysis Criteria** - An appropriate market sale identification and analysis will result in cash equivalent factors summarized in the report to indicate the:

- Total Real Property Price, with the price for any personal property that was included in the sale stated separately
- Real Property Price Per Production Unit, stated in terms of the “unit” referenced by buyers and sellers in the market for the property (e.g., Gross and/or Net Farm Acre, Per Plantable Acre, Per Animal Unit, Per Cow, etc.),
- Contributory Value of each primary real property component (e.g., Land – including improvements to land, such as altered topography, irrigation or drainage systems, access, fencing, and the like), and
- Market investment return rates, such as direct capitalization rates or yield rates, for an income producing property.

Note: The list above applies only to a land property. See Chapter CV101.5 for improved property.

As an example, the UAAR Sale form in the AgWare, Inc. software provides a level of market sale information and analysis acceptable to Farmer Mac (see the UAAR version of the Farmer Mac Form 1036).

Other forms or formats may be used, provided the information content addresses each of the data elements listed above and includes sufficient information to identify the sale property, parties to the sale, and transaction data.

An Excel version of the Farmer Mac Form 1036 is available for use in a narrative style report. The UAAR version of the Form 1036 includes the sale analysis detail. The Excel version of the Form 1036 does not include the analysis detail because that information is part of the report narrative. Form 1036 is an “example” form – the appraiser may use a form or sale data summary of his or her design, but the end result must include the foregoing information.

**Time and Distance Requirements** - Farmer Mac does not limit an appraiser’s freedom in the time frame or geographic proximity of a **Market Sale** used as a comparable in an appraisal. However, the appraiser has the obligation to support why each comparable was used in the analyses, and why other market sales of comparable property were not used.

**Component Analysis, Assemblage, Value by Summation, or the “Build-up Method”** - When the market for a property is analyzed on the basis of the property components (e.g., each land use or quality area as a component), there is a tendency for the sum of the parts to be

different than the market value of the whole. Such methods do not, alone, reflect enhanced or diminished value contribution due to size and diversity.

Appraisals involving properties with multiple uses or several property components must be supported by an analysis of market data addressing how the market is expected to respond to the ‘assemblage’ (total property), as a unit, sold by one seller to one buyer in a single current transaction.

Note: Farmer Mac expects a Seller to thoroughly scrutinize any appraisal that includes segmented analysis methods, and to not accept an appraisal that lacks support for the market value of the total property by analysis of directly comparable market data, including income analysis where appropriate, or, in the absence of adequate market comparable sale or income data, an analysis of reference market data.

**Reference Market Data** includes market sale or rental data on properties that represent similar investment risk characteristics but that might not be highly similar in property use, and market trend and economic data for an industry rather than a specific property. The use of such secondary data in support of adjustments is acceptable only when the appraiser supports its reasonableness and applicability, and primary market sale data is not reasonably available.

**Approaches to Value** - Each “approach” completed to develop an indication of market value must be supported by an appropriate analysis of relevant market data, including supply/demand balance.

Adjustments or factors used in a direct market sales comparison and estimates used in an income approach that lack support by market sale or acceptable reference market data analysis are not acceptable. Adjustments and estimates must reflect market trends.

**Direct Market Sales Comparison Approach** – A direct market sales comparison approach is required when the market’s response to the property is most consistent on the basis of price per property unit (e.g., price per site, per acre, per AU or AUM, per head, etc.).

The contributory value of primary property components (e.g., land classes or use areas) must be supported by market data analysis.

**Cost Approach** – A cost approach is not required in a Land Property appraisal. See CV 101.5 and, for a Facility-type property, CV 101.6.

**Income Approach** – An appraisal must include an Income Approach when the market’s response to the property is most consistent on the basis of its income producing capacity.

An Income Approach may be omitted in an appraisal of an income producing property that could be analyzed on the basis of its income when the property income producing capacity is not meaningful in its market or IF the market’s response to the property, as a

unit, is more consistent on the basis of price per unit AND the appraiser appropriately develops a credible and reliable value opinion on that basis.

Note: Even though an income approach is not developed in such a situation, the income producing capacity of a property must be analyzed in developing the highest and best use conclusions, with the appraiser's estimate of net property income included in the report.

**Discounted Cash Flow (DCF) Analysis** – When the market's response to a property is primarily based on the property's investment yield rather than periodic cash flow and a DCF analysis would provide credible and meaningful analysis results, a DCF (based on an un-leveraged premise) should be used to develop an income approach.

**Marketing History:** The appraiser is to research and analyze the subject's prior marketing history over at least the three-year period preceding the date of value.

**Note:** If the time frames covered by market sales used in the appraisal extends beyond the time frames stated in USPAP for the type of property involved, the time frame covered by the subject's prior sale and marketing effort information must at least match the market sales' time frame.

### 3. Market Value Reconciliation

The appraiser is expected to reconcile the result of analyzing the property and market data, including supply and demand conditions at the time of the appraisal, to form a final market value opinion. In this final step, the appraiser must determine (1) the applicability and suitability of the approaches used; (2) the quality and relevance of the data analyzed; and (3) the credibility of the value indication(s) given current market trends as indicated by the analysis of supply and demand for similar property.

Note: Averaging the value indicators developed by each approach completed is not acceptable for reconciliation. The appraiser must state a logical and reasonable basis for his or her final value conclusion, which must be within the range of value indications developed by the approaches completed.

The reconciliation process must include the result of analyzing the price in a pending or recently closed sale of the subject property. The information must include a statement as to whether the price reflects on open market exposure and arm's-length conditions.

## E. Appraisal Report Content Requirements (Form 1027A) – Exhibits and Addenda

In addition to the foregoing data and analyses information, Exhibits and/or Addenda are required in a Land Property Appraisal Report.

Farmer Mac does not specify the type or style of the Appraisal Report (e.g., form or narrative). However, the report must meet USPAP requirements for an Appraisal Report and contain sufficient information for the intended users to understand the appraisal development process

and the appraiser's support for the property and value conclusions. The substantive content of an Appraisal Report is the basis for determining its acceptability, not its volume or the sophistication of the analyses used to support the assignment results.

The Appraisal Report must include the appraiser's personally signed and dated certification. The signature must include the appraiser's state licensing and certification information as well as any professional accreditation, and the two following statements:

- I am aware of the requirements stated in the Farmer Mac Seller/Servicer Guide and have completed this assignment in accordance with those requirements as they applied in this assignment.
- My analyses, opinions, and conclusions were developed, and the appraisal and this report has been prepared for use in a lending transaction that may include Farmer Mac as an intended user.

Oral Appraisal Reports and Restricted Appraisal Reports are not acceptable for use in a Farmer Mac loan transaction. Farmer Mac prior approval is required before information communicated in an Oral Appraisal Report or a Restricted Appraisal Report is acceptable for use in a servicing action. Generally, such reports are not acceptable for use in a servicing action except when litigation or loan loss prevention prompts the need.

A Seller, Servicer, or Farmer Mac may require an appraisal be documented in an Appraisal Report with substantially greater detail than the requirements stated in Standards Rule 2, of USPAP when, in the requesting party's judgment, the circumstances warrant that level of information detail.

The "Appraisal Report Content Requirements" shown on the next three pages is provided as a guide for use when checking an Appraisal Report for content.



## Farmer Mac Appraisal Report Requirements

### Level of Information Detail

The information in the report must be specific to agricultural or rural setting property and mortgage financing. The report must be descriptive where necessary to ensure the user/reader of the Appraisal Report understands the subject's legal, physical, and economic characteristics, its market, and the appraiser's reasoning, logic, and analyses in support of the value opinion and other assignment results.

The report must include statements or summaries to identify:

| Information Element             | Content Requirement   |
|---------------------------------|---|
| <b>Client</b>                   | The client's Identity must be stated (it cannot be anonymous, and cannot be the borrower, property owner, or their agent. Do not show Farmer Mac as Client unless the appraiser is directly engaged by Farmer Mac.) |
| <b>Intended Users</b>           | Must include "Farmer Mac and its agents or assigns"   |
| <b>Intended Use</b>             | Must include "agricultural property secured lending"  |
| <b>Scope of Work</b>            | Must include a summary of the extent of research, verification, and analyses completed by the appraiser   |
| <b>Purpose of the appraisal</b> | Must state "Market Value"   |
| <b>Date of Value</b>            | Must be a "Current Date" (See CV 101.5 if a Permanent Planting Development Project is involved)   |
| <b>Defined Value</b>            | Must state "Market Value" as defined in Chapter CV101.1   |
| <b>Assumptions Etc.</b>         | Must reference and attach Form 1037 or, with client's prior agreement, an equivalent set with Form 1037B in Addenda   |

|                               | Property Data   |
|-------------------------------|---|
| <b>Location</b>               | The property address and include, where possible, GPS reference   |
| <b>Legal Description</b>      | State the ownership interest appraised, provide the physical and legal description, and confirmation that the appraised acreage matches the title report acres. |
| <b>Personal Property</b>      | Provide a description. (Call Farmer Mac for guidance)   |
| <b>Legal Limitations</b>      | Those that affect the property utility must be stated   |
| <b>Physical Character</b>     | Based on an on-site inspection (See detail for exceptions)  |
| <b>Irrigation Information</b> | With location, capacity, quality, supply stability and economics detail (cost of supply, operation/maintenance, etc.)   |
| <b>Drainage Information</b>   | With location, performance, and economic impact information detail  |
| <b>Property Use/Econ.</b>     | Summarize historical uses and economic productivity   |
| <b>R.E. Tax/Assessments</b>   | Provide detail of assessments and tax amounts   |

## Farmer Mac Appraisal Report Requirements

(Continued)

| <b>Market Analysis</b>                 |   |
|--|---|
| <b>Market Characteristics</b>          | Geographic, demographic, and economic information sufficient for the reader to understand market conditions, market trends, supply/demand balance and competition, and the subject's location strengths and weaknesses  |
| <b>Highest and Best Use</b>            | <u>Include income-producing capacity if any</u> ; If not income producing, say so and why   |
| <b>Market Sales Data</b>               | See chapter CV 101.4-D (2) for criteria; include sales location map with each sale with GPS references (when available)   |
| <b>Approaches to Value</b>             | <p>Each approach must consider the subject property as a unit. See limitations on use of built-up or value-by-summation method, and CV 101.5 if a Permanent Planting Development Project is involved.</p> <p><b>Sales Comparison:</b> Required on all appraisals <b>if</b> an Income approach is not completed</p> <p><b>Income Approach:</b> Required when the market's response to the property is most consistent on the basis of its income producing capacity</p> <p><b>Cost Approach:</b> Required when structures and/or permanent planting improvements contribute significantly to value - does not apply to a Land Property</p> |
| <b>Ownership and Marketing History</b> | Covering age of oldest comparable market sale, if longer than USPAP states  |
| <b>Reconciliation</b>                  | Include statement of final value conclusion   |
| <b>Time Periods</b>                    | Exposure time and marketing period differences reconciled   |
| <b>Report Certification</b>            | <p>Signed and dated, with content in compliance with USPAP plus the two following statements:</p> <ul style="list-style-type: none"> <li>• "I am aware of the requirements stated in the Farmer Mac Seller/Service Guide and have completed this assignment in accordance with those requirements as they applied in this assignment."</li> <li>• "My analyses, opinions, and conclusions were developed, and the appraisal and this report has been prepared for use in a lending transaction that may include Farmer Mac as an intended user."</li> </ul>   |
| <b>Report Certification Signatures</b> | Include appraiser's state or territory Real Estate Appraisal license or certification number and license expiration date  |



## Farmer Mac Appraisal Report Requirements

(Continued)

| <b>Addenda</b>                                 |  |
|--|--|
| <b>Maps (in color)</b>                         | <b>Plat:</b> Annotated with legal and physical access, etc. and adjacent land uses<br><b>Soils:</b> With soil quality information stated or summarized<br><b>Hazard Area:</b> Identifying Environmental and Flood Hazard areas as applicable<br><b>Permanent Plantings:</b> Identifying blocks, with detail information in a table as applicable |
| <b>Sketches*</b>                               | When applicable, showing all dwellings with significant contributory value   |
| <b>Photos* (Color)</b>                         | Showing access, land use areas, improvements, and permanent plantings  |
| <b>Market Sales Location Map (in color)</b>    | Showing all sales and the subject on one overview map  |
| <b>Environmental Supplement</b>                | Form 1010A** or equivalent, signed by the applicant or the applicant's representative. (Farmer Mac does not require an appraiser to sign the Form 1010A, but a Client may require the appraiser to do so as part of the Client's criteria.)  |
| <b>Agricultural Water Supply Questionnaire</b> | If applicable, Form 1020** or its equivalent   |
| <b>Marketing Documents</b>                     | Copies of the purchase agreements, options, or similar property marketing documents, (if the property is being purchased or is currently on the market)  |
| <b>Value Allocation*</b>                       | Allocate value conclusions to primary property components and include Cost New and REL for structures, permanent plantings and any personal property. See Form 1027B guidance at the end of CV101.5 and in CV 101.9  |
| <b>Engagement Document</b>                     | Form 1023A Engagement Letter or an equivalent fully signed document (i.e., Client and Appraiser signed).   |

\*Applies to Improved Property Appraisal Reports only. If the original AgWare UAAR form set is used, the Form 1027B is not required.

\*\* The Form 1010A and Form 1020 are to be completed by the borrower or borrower's representative (not the appraiser) and given to the appraiser with the engagement document.

Note: The sequence of information elements in this table is not necessarily the sequence an appraiser might use in an Appraisal Report.

## CV 101.5 Farm and Ranch Property Appraisal Requirements – Improved Property

**General** – This Chapter CV101.5 provides guidance on the minimum scope of work requirement and minimum appraiser competence level that applies when the appraised property includes permanent plantings (orchard, vineyard, grove, etc.) or building improvements that have significant contributory value.

**Overview** – In summary, Farmer Mac expects the appraiser’s scope of work in an improved property appraisal to include the requirements stated in Chapter CV101.4 plus, as a minimum:

- An inspection of the plantings and/or building improvements that have significant contributory value,
- Property research must result in a credible identification of the age, quality, and condition of the improvements, including the remaining economic life and utility/productivity of the improvements that have significant contributory value,
- Development of a property highest and best use conclusion with the property “As Improved” and “As if Vacant” (i.e., as if not improved with the plantings and/or buildings),
- Market research, including confirmation and verification of relevant “improved property comparable” market sales, and analyses of the improved property sales to develop and support a credible value conclusion,
- A Cost Approach, in addition to a Sales Comparison or Income Approach (whichever provides the most credible basis for the market value opinion), and
- Documentation of the appraisal in a report that must include the physical and economic characteristics of the improved property, with sufficient information for the intended users to understand the appraisal development process and the appraiser’s support for the property and value conclusions.

The scope of work in the appraisal must be completed by a State Certified General R.E. Appraiser when the proposed security is not a rural residential use property.

If the “As Is” property is improved with an existing residence with significant contributory value AND the primary highest and best use of the proposed security is as a rural residential use property, the appraisal may be completed by a Certified Residential R.E. Appraiser.

### Scope of Work

The appraiser’s research and analyses in an improved property appraisal must include gathering, confirming, and analyzing additional information about the improvements.

**General Requirements for Building Improvements** – When the property includes building improvements, the appraiser is expected to identify and, to the degree possible, confirm the building age, quality, condition, and functional utility in terms of its designed use and (if placed in to a different use) serviceability in the alternative use. The appraiser is expected to summarize in the report the improvement description(s) with

sufficient detail for the reader to gain a clear understanding of their physical and economic characteristics.

Note: If the subject property is being used in a manner the does not comply with applicable zoning or use regulations, such as a property with an enterprise that requires a use permit, but no such permit has been obtained or such a permit could not be obtained, the market analysis must be based on the legally permitted property use, and the in-place enterprise must be disclosed in the Appraisal Report as part of the property use information.

**Cost Approach** – The appraiser is expected to develop and report the result of a cost approach in the appraisal of a property with permanent planting or building improvements that have significant contributory value. Cost and depreciation estimates, and the site values in a cost approach must be based on market evidence, which must be cited and, to the degree necessary for a clear understanding, summarized in the report.

### **Dairy Properties**

In addition to identifying and summarizing in the report the characteristics of dairy use building and site improvements, the appraiser must, in the process of developing the highest and best use conclusion, identify the permitted capacity of the dairy and compare the total property (land and improvements) with the requirements or conditions of the permit.

The operating design and resulting economics of the dairy must be reflected in the market analysis (sales comparison, cost, and income approaches), with the appraiser's research and analysis expected to include consideration for input cost and output price trends in the market area of the dairy. A summary of the appraiser's analysis of this information is required in the report.

**If Property Use Is Not A Legal Use** – If the existing dairy property use is not in compliance with applicable zoning or similar laws or regulations, the subject's market analysis must be based on a legal use or the use for which a legal permit can be obtained.

If the analysis is based on a legal permit being obtained, a change in applicable zoning or regulation, or a change in the subject property, that analysis is then based on an extraordinary assumption and/or a hypothetical condition, either of which may be used only with the client's prior written agreement.

As examples:

- If the property is a dairy operating at 1,000 head capacity but zoned and permitted for only 900 head, without the possibility of economically curing the cause of the capacity limitation, the property must be analyzed as a 900 head capacity dairy. This means that the market data used in the analysis, such as comparable dairy sales and rents, should also be analyzed on the permitted capacity of the sale or rent comparable properties. In such instances, the appraiser must address the functional super-adequacy in the analysis of the subject and any market sales used in each of the approaches completed.

- If the subject property is a dairy that can be modified to comply with legal capacity limitations, such as by expansion of wastewater handling capacity or other support facilities, analyze and report a market value for the property both at its existing legal capacity (As Is – as of a current date of value) and at the capacity that is feasible and achievable by such modification (As If Modified – as of a current date of value) if that is how the market would respond to that property.

The “As Is – as of a current date of value” analysis must address the operating and ownership expense impact on the existing property arising from the real estate tax, insurance, and maintenance costs associated with the improvements that exceed the legal capacity.

The “As If Modified – as of a current date of value” analysis must be based on a hypothetical condition because the appraiser knows the actual legal capacity is less as of the current date. The hypothetical condition must be appropriate, clearly disclosed and its use explained. In such a situation, the market value of the property “As If Modified” must be supported by an economic feasibility analysis as well as market data, and stated as such in the Appraisal Report.

The market analysis must also appropriately address the cost to cure the mismatch between the “As Is” legal capacity and the “As If Modified” capacity, such as the cost to establish increased wastewater handling capacity or acquire additional land. The client’s prior agreement is required for use of the hypothetical condition.

- If the property has improvements that are in use at a level that exceeds legally permitted capacity, with no feasible way to bring the property into legal compliance, state the rental or operating income those excess improvements produce separately in the report, and do not include the income from the excess improvements in the subject property’s income producing capacity information stated in the highest and best use or income approach section of the report.
- In this situation, provide a summary description of the improvements that exceed legal limitations in the report, but do not include them in the contributory value.
- Further, if market research indicates the excess improvements are so onerous as to negatively affect market appeal or to prompt abatement efforts by an agency of jurisdiction, address and report the removal cost (cost to cure) as part of the market analysis.

Note: The above examples also apply when the property is any type of facility operating above the legally permitted capacity of that facility.

## Permanent Planting Improvements

Farm and Ranch properties that have significant areas of permanent plantings often involve complex data and analysis issues, due primarily to the long productive life (10 years or more) and the cyclical nature of the market for the commodities produced.

Note: The appraiser is expected to gather and, to the degree practical, verify data regarding the physical and economic characteristics of the subject property's permanent plantings.

The appraiser is not expected to perform the functions of a title agent or title expert, particularly with regard to real or personal property rights related to permanent plantings.

The appraiser is expected to report observed property conditions and, when the appraiser is not certain of the condition of title to the property appraised, use extraordinary assumptions following discussion with and obtaining written agreement for such use with the client.

Farmer Mac Form 1034 – **Permanent Planting Data Summary Example** illustrates the type of information that an appraiser is expected to gather and analyze when appraising a property with significant areas of permanent plantings. Appraisers may use other forms, such as forms of their own design, but the information gathered, analyzed, and reported must address all data elements that affect market value.

Data, such as age of planting, varieties, historical production and prices received, and the capacity/age/condition of support elements (irrigation systems, trellis systems, etc.) must be verified or (if not verifiable) stated as an extraordinary assumption following discussion of the unconfirmed data with the appraiser's client and obtaining the client's written agreement for use of that extraordinary assumption.

All relevant physical and economic characteristics must be considered in the process of identifying the effective age of a planting and estimating its remaining economic life (REL). Demand and supply trends, as well as data specific to the property, must be analyzed and reported in support of the appraiser's estimated REL.

**Notes:** When the tree or vine has been grafted over to a different variety, the age of planting refers to the time since the tree or vine was planted, not the time since the plant was last grafted.

If production and income information obtained from the property owner or manager is not verified or confirmed by shipper or processor statements, the appraiser may use an extraordinary assumption following discussion of the unconfirmed data with the appraiser's client and obtaining the client's written agreement for use of that extraordinary assumption.

Historical production and income information for permanent plantings should, when available, cover the planting's productive age, but at a minimum must cover the most



recent three-years for non-alternate bearing plantings or most recent four-years for alternate bearing plantings. If significant changes were made that affect the planting's productivity (such as in the irrigation system, cultural practices, soil amendments, or the like) during the period covered by the historical data, those changes should be noted together with the data and the impact on production capacity explained.

Commodity price cycles and current trends must be analyzed, and the analysis result reported together with current and foreseeable industry supply and demand conditions (including consideration for the relationship between bearing and non-bearing acreage and the productivity of new plantings versus that of older plantings). This is particularly important when analyzing sales used as price or capitalization rate comparables and in estimating the subject planting's REL.

The commodity price period (years) analyzed must cover at least one complete cycle (high to low to high or low to high to low) plus the period following the most recent high or low. The appraiser is expected to consider the commodity cycle as well as current trend in the process of market analysis and when estimating the REL for a planting.

When the commodity produced by the permanent planting is for the fresh market (e.g., tree fruit, table grapes, etc.), the appraiser's analysis of historical and foreseeable market supply/demand conditions and estimate of REL must reflect durability and variability of the consumer market's preference for the specific varieties produced. When handling a planting with a new variety in the market, the appraiser is expected to take into account past performance of the market when other similar varieties were newly introduced.

### **Proposed Permanent Planting Improvements**

A 'permanent planting development property' is one where over 20 percent of the acres of the proposed security property (the Subject Property in an appraisal) are to be used to develop a new permanent planting or where over 20 percent of the proposed loan is to be used to fund a permanent planting development on the proposed security property. The lender/Client is to make the initial determination and inform the appraiser, at the time of engaging the appraiser in the assignment, that the subject property in the appraisal includes a proposed permanent planting development project.

When the property includes a proposed permanent planting development project, the following additional scope of work and report content requirements apply.

- The development project plan (to be provided by the Lender/Client) is to be reviewed to determine the suitability of the project development site in terms of the soil quality, water supply/quality/cost/stability, climate, availability/cost of development inputs, and reasonableness of the development phasing and time frame, with the results addressed in the market analyses and report.
- The Market Value opinions to be developed and reported must include –
  - “As Is”, as of the current date

- “As If Currently Completed” (As Will Be) – Under the hypothetical condition that the development project is completed as of the current date
- “Prospective, At Stabilized Income” – Under the extraordinary assumption that the development project is completed with the planting at stabilized production, as of the future date when the planting is expected to reach that production level.
- The market analysis must include all three ‘approaches’ (Sales Comparison, Income, and Cost)
- The developer’s project costs must be compared to typical costs shown in industry or Land Grant University/Extension Service Cost Studies, and (if available) actual development cost histories on similar plantings.
- If development profit is present in the market, it must be supported by comparable sales’ analysis and shown as a separate line item in the project budget.
- Production and Income estimates must be supported by local area production histories on similar plantings and/or similar local data, with commodity prices reflecting the average in a typical price cycle over a term of not less than four years (longer if needed to capture a representative price cycle)
- Rates and factors used in a discounted cash flow analysis must be extracted from the market and based on investment return rates and cost factors seen in similar plantings. Investment return rates from commercial/industrial property investment studies and publications are not acceptable.

### Reporting of Improved Property Value Conclusion Allocation

An allocation of the appraiser’s final value opinion is needed to aid in underwriting decisions on such matters as loan term and property insurance requirements. The allocation table should appear in the report immediately following the final value conclusion statement.

The Form 1027B – Allocation Table (or its equivalent) is required when the ‘subject property’ includes a combination of residential use and non-residential use building improvements, and permanent plantings with significant contributory value.

The Form 1027B is available in the [Resource Library](#) and its use instructions are available in CV 101.9.

**Note:** If the appraiser uses the original AgWare UAAR form set, the Form 1027B is not required because the original AgWare UAAR form set provides the needed allocation information.



Since the Component Appraisal Forms (UCAF) version of the AgWare UAAR form set does not include the needed allocation information, the Form 1027B or its equivalent is required as part of the UCAF version of the appraisal report.

If the report style/format is a narrative or a form set other than the original AgWare UAAR form set is used, the Form 1027B or its equivalent is required as part of the report.



## CV 101.6 Specialized Production Agricultural Facility Appraisals

Chapter 205 of the Farmer Mac Seller/Service Guide (Guide) contains the credit guidelines for Specialized Production Agricultural Facilities (Facilities), which include Agribusiness property types (e.g., properties primarily used in first-level processing, preparing for market, handling, or storing farm-gate commodities).

This Chapter CV101.6 contains the Farmer Mac Standards and Guidelines for an appraisal of a Facility. The appraisal development and reporting requirements stated in this Chapter are in addition to those stated for appraisals in Chapter CV101.5, and in Guide Chapter 205.

### A. Definitions

For the purpose of these requirements, the following definitions apply:

- **Facility** is a property that has or is proposed to have agricultural production and processing use structures, fixtures, facility site improvements, and tangible personal property necessary for continued use of the facility under its highest and best use that, in combination, contribute more than 60 percent to total property value.
- **Facility Appraiser** is an individual who meets all of the qualifications of an Appraiser and who has demonstrated competency to the Seller in the appraisal of facility properties similar to the subject property in a proposed assignment, with Farmer Mac's prior-approval review of the Seller's determination.

### B. Property Identification

The subject property in a Facility Appraisal may include all of the real estate, real estate fixtures, facility site improvements, and tangible personal property items and components that are necessary for continued use of the property under its highest and best use but must not include the business enterprise (going-concern) itself.

Note: Given the complexity associated with the types of property involved in a Facility that includes personal property in addition to real estate and real estate fixtures, the Originator or Approved Seller should contact Farmer Mac to discuss the situation before engaging the appraiser.

The ownership interest valued in a Facility Appraisal will typically be based on a fee simple interest in the real property and clear title to any personal property.

Note: The difference between the fee simple interest in real property or a clear title to personal property included in the Facility Appraisal and any existing financing or similar encumbrances is addressed in the course of underwriting.

If the property is leased to non-affiliated parties, the analysis can be of a leased fee interest, appropriately developed and supported with market rented sale comparables.

**C. Market Identification and Analyses**

The market for a Facility must be identified and that identification summarized in the Appraisal Report in terms of its dollar volume and property population, property turnover rate, and typical conditions of sale over a time period that reflects a complete industry supply/demand cycle. The information coverage must be consistent with the market of the subject (e.g., national level data and information analysis would be expected when the property is a national scale property or regional level data and information analysis when the property's market is regional).

**D. Economic Analysis**

The appraiser must complete research and analysis of industry-specific economic information to determine the desirability of varieties grown or commodity produced, marketing conditions and the remaining economic life of the facility, and report on the current economic feasibility and viability of the subject property and its highest and best use, As Is.

This analysis must be completed from the perspective of participants in the industry and market in which the subject property competes.

Subject property owner/operator source historical production and economic data, or forecasts, must be analyzed and the result included in the subject's highest and best use analysis and the market analysis, but not given preference over other relevant data in those analyses.

The economic analysis must include data to define the source(s) of facility inputs and the market for facility output, together with the competitive economic conditions in the market for the commodity throughput of the Facility, with the result summarized in the Appraisal Report.

The market analysis must include a Cost Approach supported by market-based depreciation (not table-based depreciation), and a Sales Comparison Approach with improvement-related adjustments based on analysis of improved facility-type property sales. If an Income approach is applied, the capitalization or discount rate applied must have specific facility-type property market support (not aggregated 'investment' rates).

**E. Facility Appraisal Report Content Requirements**

A Facility Appraisal Report must comply with the report type and content requirements stated in Chapter CV101.4 for an Appraisal Report

The Allocation of Final Value Conclusion information shown using the Form 1027B – Allocation Table in a Facility Appraisal Report must contain sufficient detail to distinguish the contributory value of each primary structure in the facility (e.g., in a dairy, Milk Barn, Commodity Storage, etc.).

Note: Due to the specialized use inherent in such properties, the appraiser is expected to identify and clearly state the conditions under which the market analysis and value conclusion applies.

For example, when a facility has economic demand only when it is a contributing part of an operating business unit that is, itself, a going concern, but has much less market

demand if the in-place business unit is not viable, the appraiser must clearly state that the value is supported by the presence of an economically viable operating business unit and would not be supported in its absence. The appraiser must also state the most probable alternative highest and best use for the facility (land, structures, fixtures, and personal property components) in the absence of an economically viable operating business unit. This kind of information is essential for informed underwriting.

## CV 101.6.1 Farmer Mac Collateral Valuation of Forestland Requirements

The following standards and guidelines, which are in addition to those in CV 101.1 – CV 101.6, apply when the proposed security ('subject property') includes significant value contribution from forestland. Major timber producing regions of the United States include the northeast, southeast, Gulf States, Great Lakes region, Rocky Mountains, and the Pacific Northwest. Each region has characteristics that differ from the other regions, and subsequently, the forest products and timber markets differ as well. Each of these areas exhibit the types of forestland noted below.

- **Commercial Forestland** - The Highest and Best use of the property is the production of timber over the life of the loan.
- **Transition Forestland** – The previous Highest and Best Use was timber production, but has changed to include significant value contribution from recreation, hunting, fishing or other uses (not sustained timber production). While timber production continues, it contributes less than 25% to the total property value.

When the highest and best use of the proposed security that once was forestland no longer includes a significant value contribution from timber harvest (the value contribution from timber or woodland is less than 10% of total property value), the proposed security is considered 'Former Forestland'. As such, the current highest and best use does not include significant areas of timber production. Some such properties involve other uses including a conservation easement or other preservation-related encumbrance(s) under which timber harvest may only allow managed cuts to maintain a healthy forest. When the proposed security is **Former Forestland**, the appraisal may be completed by a state certified general appraiser with experience valuing similar property sufficient to comply with the Competency Rule in USPAP.

Note: For the purposes of this section, "Timber" includes trees grown for harvest and use as pulp wood, dimension lumber, or hardwood.

### A. General Forestland Appraisal requirements:

When the proposed security is a **Commercial Forest** property, the state certified general real estate appraiser must also be a registered forester and the appraisal must include a timber cruise, or integrate in the appraisal a timber cruise-based valuation by a registered forester supporting the timber contribution. Also, the appraiser must have experience specifically in valuing Commercial Timberland sufficient to comply with the Competency Rule in USPAP.

When the proposed security is a **Transitional Forest** property, the appraisal may be completed by a state certified general appraiser with sufficient experience specifically in valuing timber to comply with the Competency Rule in USPAP – While a timber cruise by a registered forester is not always required, if such a timber cruise is not included in the appraisal report the timber contribution must be supported by analysis of similar property sales (i.e., the comparable sales must include properties with and without similar timber).

If the market analysis for either type of forestland or the timber contribution includes a discounted cash flow (DCF) analysis, the discount rate or yield rate applied in the DCF must be supported by analysis of market sales of timber or forestland property. A built-up rate or a rate based on analysis of data from non-forestland use property is not acceptable.

## **B. Commercial and Transitional Forestland Appraisal Report Content Requirements:**

### **Commercial Forestland –**

- A well-documented timber cruise must be included in the appraisal report. The timber cruise must have maps/aerial photos locating all timber lots, species and volumes of timber, with growth rates and the basis for the timber value estimates in the cruise report. The timber volumes must be broken down in merchantable and per-merchantable (if applicable), and wetland areas and other non-timber land use must be shown on the exhibits;
- The forestland road systems, access points, water-frontage, and conservation easements if any must be described. Any areas not suitable or economic for harvest also must be noted (e.g., wet land or steep terrain);
- A Silviculture plan needs to be in place for management of the forest with a cutting or harvest and replanting plans that has been approved by the local, state or federal agency or agencies of jurisdiction. It should include an assessment of disease, insect damage and other hazard risks on the collateral.  
(Silviculture is the art and science of managing the establishment, growth, composition, and quality of forest vegetation for the full range of forest resource objectives. Or more simply, it can be thought of as the art and science of growing trees for a purpose.)

### **Transition Forestland –**

- A well-documented timber cruise that establishes the location of the timber as well as the volume and market value, must be included in the appraisal report or the appraiser may present sales or comparable properties with analyses to support the timber contribution;
- The transitional forestland road systems, access points, water-frontage, conservation easement encumbered areas (if any) must be described and illustrated on exhibits. Any areas not suitable or economic for harvest must be noted (e.g., wet land or steep

- terrain) and other land use areas must be identified (e.g., rural residence/estate sites, other crop production area, etc.);
- A defined and approved cutting or harvest plan, if such a plan is required by the local, state or federal agency or agencies of jurisdiction, must be included in the appraisal report.

### **C. Special Purpose Timber-related Facilities (Saw Mills, Pulp Mills, etc.)**

If the proposed security includes a timber-related facility, the requirements in CV 101.6 apply.

The value contribution of the Fixtures, Furnishings, and Equipment (FF&E) in such a facility must be supported by an appraisal of those components by a personal property appraiser performing the appraisal in compliance with the Competency Rule in USPAP, with the contributory value of the FF&E based on 'Market Value in Use/In Place' as part of the value of the operating facility. In certain cases, Farmer Mac may also require a "Market Value" under other defined conditions (e.g., uninstalled, in yard – in bulk).

Contact Farmer Mac's underwriting department for guidance prior to obtaining an appraisal involving timber-related facilities.



## CV 101.7 Collateral Valuation Acceptance, Appraisal Reviews, and Performance

**General** – Effective use of the selection and engagement process, and the appraiser’s best efforts should result in collateral valuation information suitable for use in underwriting and servicing actions.

The following applies to Farm and Ranch and Specialized Production Agricultural Facility-related loan transactions.

See Chapter CV201 for Loan Servicing-related collateral valuation acceptance, review, and performance requirements.

### A. Collateral Valuation Acceptance

The purpose of the acceptance process is to ensure that the Appraisal Report contains information that is necessary and suitable for use in underwriting and conforms to the users’ requirements.

The Seller is to provide Farmer Mac with the original of the Appraisal Report (electronically, when available in that media), and a copy of the document the Seller placed in the loan file to show its acceptance. The Seller may use an appraisal acceptance form of its own design or document its Appraisal Report acceptance with the Farmer Mac Form 1027A (see CV 101.9-B) or the “Appraisal Report Content Requirement” table (see the last three pages in CV 101.4E).

Farmer Mac’s Credit Underwriting unit performs the final “Acceptance” element of the collateral valuation function for Farm and Ranch and Specialized Production Agricultural Facility loan products.

Upon completion of the final acceptance process, Farmer Mac’s Credit Underwriting unit will advise the Seller of the acceptance of the report or of any conditions that must be met prior to acceptance by Farmer Mac.

Any conditions for acceptance of the Appraisal Report identified by Farmer Mac are to be resolved by the Seller.

### B. Appraisal Review

The Seller is responsible for obtaining an Appraisal Review when required by Farmer Mac’s Credit Underwriting unit as a condition of Appraisal Report acceptance.

The purpose of Appraisal Review is to test and confirm whether the collateral valuation information provided in an Appraisal Report is suitable for use in a Farmer Mac loan or servicing action.

Farmer Mac may, in its sole discretion, based on its experience with a Seller’s collateral valuation performance, require appraisal reviews prior to initial submittal of an appraisal at

Farmer Mac-specified levels and/or frequencies. When applicable, Farmer Mac will communicate such a requirement to the Seller.

Minimum Appraisal Review Competency and Scope of Work (Farm and Ranch and Specialized Production Agricultural Facility Property) – Appraisal reviews completed by the Seller, or entity acting on its behalf, must comply with Standard 3 of USPAP. The appraiser performing the appraisal review must comply with the Competency Rule in USPAP.

Note: In this context, competency does not mean the reviewer has state or territory license or certification in the locality of the property involved.

The reviewer's scope of work in an individual appraisal review will, at a minimum, include a complete reading of the Appraisal Report, determining whether the analyses used by the appraiser were appropriate and correctly completed (without verification of the data used or additional data research), and whether the value reported was adequately supported.

If the findings in the initial appraisal review indicates the need, the scope of work in the review should be elevated to include additional data research and verification (with or without field inspection), and may be extended to include having the appraisal reviewer develop his or her own opinion of value.

Farmer Mac Acceptance – Farmer Mac may elect to not rely on the information in an Appraisal Report or Appraisal Review and, instead, may require that the Seller, without cost to Farmer Mac, provide a substitute collateral valuation acceptable to Farmer Mac.

Appraisal Reviews on Appraisals Obtained by a Third Party – An Appraisal completed by an appraiser engaged by a third-party may be submitted for Farmer Mac's acceptance only after the Seller has confirmed the appraisal meets the conditions stated for use of a third-party obtained appraisal and provides the certification statement as described in CV101.2 (F). Farmer Mac may require that the Seller obtain an Appraisal Review of the third-party source appraisal prior to submittal of the appraisal to Farmer Mac.

**C. Performance** – Farmer Mac expects Sellers and Servicers to include an appraiser's past performance as a factor in determining suitability for new assignments. The data on the national registry maintained by the Appraisal Sub-Committee (ASC), together with the Seller's or Servicer's own experience, shall be taken into account before engaging an appraiser in an assignment.

Note: Farmer Mac Farm and Ranch Program Appraisal Report Content Requirements are shown in Form 1027A, located in the Resource Library.

## CV 101.8 Collateral Valuation Updates, and Appraisal Report Corrections and/or Supplements

This chapter covers three situations, each driven by different causes. While the requirements for each are similar, there are differences in how each situation is to be resolved.

### CV 101.8.1 Collateral Valuation Updates

**General** – The requirement for a collateral valuation update differs according to the type of transaction (Loan Purchase, Seasoned Loan, Standby, etc.) or servicing action involved.

The information required in an update also differs according to the circumstances prompting the need for the update – a significant change in the collateral, a significant change in market levels (trends), or a combination of these.

The type of update required in each type of transaction and the scope of work and information required in an update are set forth below.

#### A. Loan Purchase Loans

When the date of value in an appraisal for use in a Loan Purchase loan transaction is more than one-year prior to the loan transaction date, an update of the appraisal must be completed.

The appraisal update must be completed in accordance with the criteria set forth in the applicable portions of CV 101.4 – CV 101.6. A valuation update under USPAP is essentially a new appraisal that uses the property and market information in the original appraisal supplemented with current property data, market data, and analyses as may be necessary to develop and report a current opinion of value.

Note: Notwithstanding the one-year appraisal age limit stated above, Farmer Mac may, at its sole discretion, require an update of an appraisal that is less than one-year old.

#### B. Seasoned Loans

For individual Seasoned Loan transactions, an update supported by a Collateral Assessment Report (CAR), described below, may be used if the original appraisal substantially conformed to USPAP requirements at the time of the appraisal.

Note: If the appraiser or firm in the appraisal to be updated is not available, Farmer Mac may accept a valuation update performed by a different appraiser or firm when the appraiser completing the update has access to the work file as well as the original Appraisal Report.

**Collateral Assessment Report (CAR) (Farmer Mac Form 1047)**

Form 1047 is for use when updating physical data and market trend information concerning a property serving or to serve as security for a Farmer Mac loan. A copy of the CAR (Farmer Mac Form 1047) is included in the Forms Chapter of the Guide.

The CAR, whenever possible, should be completed by a state Certified General Real Estate Appraiser. However, individuals that have knowledge of the appraisal process, real property law, and market values and conditions in the specific area of the subject property may complete the CAR.

On a case-by-case basis, in Farmer Mac's sole discretion, the CAR may be substituted for a formal appraisal update. Examples of instances include few buildings on the subject property, a low original LTV, and for certain servicing actions.

**Collateral Valuation Updates Involving Groups of Seasoned Loans**

From time-to-time Farmer Mac is asked to consider the purchase of groups of seasoned loans. For such loans, Farmer Mac, in its sole discretion may, instead of specific property value updates, use USDA-ERS average land value data, other source data, or statistical analyses to evaluate market trend or property appreciation and depreciation rates. Farmer Mac, at its sole discretion, may use such data and analyses in place of individual updates for analyzing the collateral ratio of individual loans within a pool of seasoned loans.

**C. Collateral Valuation Updates Involving Standby Loans**

If the result of a CAR (completed when required as explained in CV 101.3 C) indicates a valuation update is recommended or required, the institution submitting the Standby Loan may, instead of a new security property appraisal, use USDA-ERS average land value data, other source data, or statistical analyses to evaluate market trend or property appreciation and depreciation rates.

If the institution elects to provide an update of the most recent appraisal in a new appraisal, the requirements stated in CV 101.8 A above apply.

**CV 101.8.2 Appraisal Report Corrections**

When a submitted appraisal report has significant and material errors, correction of the errors is required.

Corrections to an appraisal report may range from relatively simple (involving just a few pages) to extensive (which prompts a need for a 'corrected' report).

**A. Correction required on a specific page or just a few pages in an appraisal report**

If the corrections involve only a page or a few pages, the corrected pages are to be provided in a document that is signed and dated by the original appraiser, and includes –

- References to identify the appraisal report being corrected (Client, Date of Report, Property Identification, etc.),
- Identifies the page/s in the appraisal report being replaced with (superseded by) corrected information, and
- The corrected page/s.

**B. Replacement of the entire appraisal report with a corrected version**

If the corrections involve more than a few pages, it may be necessary to provide a corrected replacement appraisal report. In that instance, the replacement appraisal report must –

- Identify, in the Letter of Transmittal or a Cover Page, the original appraisal report and state that the original appraisal report is superseded by the replacement version, and
- Contain a current dated and signed Appraisal Report Certification.

**CV 101.8.3 Appraisal Report Supplement(s)**

When a submitted report has significant and material content deficiencies, a signed and dated appraisal report supplement is required.

An appraisal report supplement must be provided in a document that is signed and dated by the original appraiser, and –

- Identify, in the Letter of Transmittal or a Cover Page, the appraisal report being supplemented,
- State that the appraisal report is supplemented by the material attached to the Letter of Transmittal or Cover Page, and
- Contain, together with the supplemental material, a current dated and signed Appraisal Report Supplement Certification.

## **CV 101.9 Collateral Valuation Forms**

### **A. Farmer Mac Collateral Valuation Reports - Styles or Formats and Certifications**

Appraisal reports can be composed in a narrative style or format, or by use of standardized form sets. Appraisers are required to certify their appraisal reports in compliance with USPAP to ensure recognition and acceptance of responsibility for the assignment results.

### **B. Assumptions and Limiting Conditions (Farmer Mac Form 1037)**

It is typical practice for an appraiser to state the assumptions and limiting conditions that applied in the development of the assignment results, including any extraordinary assumptions or hypothetical conditions.

Farmer Mac recognizes that these statements form the context of the collateral valuator's opinions and conclusions, and can significantly affect the meaning and usefulness of the information in the report.

The assumptions and limiting conditions in appraisal reports address specific situations in an assignment as well as typical or "normal" assignment situations.

In view of the distinct character of Farm and Ranch and Specialized Production Agricultural Facility property valuation and related financing issues, Farmer Mac has identified a set of Assumptions and Limiting Conditions that are accepted as normal in an appraisal submitted for use in a Farmer Mac loan or servicing action.

Farmer Mac also recognizes that assignment conditions vary and, together with different property or market conditions, may prompt the need for use of other assumptions and limiting conditions, or the use of extraordinary assumptions or hypothetical conditions. Accordingly, to encourage open dialogue and avoid misunderstandings between the parties, Farmer Mac has established a process whereby the client and appraiser can add to Farmer Mac's standard assumptions and limiting conditions, as circumstances require.

Farmer Mac requires that the client consider and, when appropriate, provide its written prior-agreement for the use of any additional assumptions, limiting conditions, extraordinary assumptions, or hypothetical conditions in an appraisal.

Except by written documented agreement between the client and the appraiser or by the client's written documented (See Form 1037B) willingness to accept responsibility for Assumptions and Limiting Conditions outside of those listed by Farmer Mac Form 1037, the only Assumptions and Limiting Conditions acceptable in an appraisal submitted for use in a Farmer Mac Farm and Ranch or Specialized Production Agricultural Facility property loan or servicing action are those shown in Farmer Mac Form 1037.

A copy of the Assumptions and Limiting Conditions statement (Farmer Mac Form 1037) is available as an electronic file directly from Farmer Mac at its website ([www.efarmermac.com](http://www.efarmermac.com)) in the Resource Library section. A copy of the Form 1037B is also available in the Resource Library.



Farmer Mac Form 1037 is also available for use in the UAAR form set, in the UAAR Forms Library under the “FAMC Forms” tab. The original may be obtained from AgWare, Inc. at its website ([www.uaar.net](http://www.uaar.net)).

Note: Farmer Mac has an objective of facilitating electronic transmission and handling of collateral valuation information. The AgWare, Inc. version of the UAAR software has a comprehensive set of analysis and reporting forms, and functionality to permit database management and data file transmission in several protocols. Farmer Mac may accept, subject to its prior approval, a UAAR form report set generated by a UAAR form software package from sources other than AgWare, Inc., if the client has confirmed the alternative source software has equivalent functionality and data integrity, and provides Farmer Mac with supporting documentation acceptable to Farmer Mac.



File No # \_\_\_\_\_

**Assumptions and Limiting Conditions**

(Singular includes plural)

The certification of the Appraiser appearing in the Appraisal Report is subject to the following assumptions and limiting conditions and to such other specific and limiting conditions as are set forth in Item No. 18 of this statement in accordance with Farmer Mac Collateral Valuation Standards and Guidelines.

1. The Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Appraiser render any opinion as to title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership.
2. Sketches in the report may show approximate dimensions and are included only to assist the reader in visualizing the property. The Appraiser has made no survey of the property. Drawings and/or plats are not represented as an engineer's work product, nor are they provided for legal reference.
3. The Appraiser is not required to give testimony or appear in court because of having made the appraisal with reference to the property in question unless arrangements have been previously made.
4. Any distribution of the valuation in the report applies only under the existing program of utilization. Contributory value indications are only allocations and are not represented as separate valuations. The intended use of those contributory value indications is only in underwriting. Any other use is without obligation to the Appraiser.
5. The Appraiser has, in the process of exercising due diligence, requested, reviewed, and considered information provided by the ownership of the property and client, and the Appraiser has relied on such information being candid and complete, and assumes there are no hidden or unapparent conditions of the property, subsoil or structures, which would render it more or less valuable. The Appraiser assumes no responsibility for such conditions, for engineering that might be required to discover such factors, or the cost of discovery or correction.
6. In an assignment where the Appraiser has not inspected the subject property, due to lack of peaceful access or client approved assignment limitations, as described and documented in the report, the appraiser has used subject property information developed in the course of public and/or private record research. If public record information is subsequently found to have been in error, responsibility for the impact of the error rests with its source, not the appraiser.
7. The Appraiser is not qualified to verify or detect the presence of hazardous substances by visual inspection or otherwise, and is not qualified to determine the effect, if any, of known or unknown substances present. Unless otherwise stated, the final value conclusion is based on the subject property being free of hazardous waste contaminations, and it is specifically assumed that present and subsequent ownerships will exercise due care to ensure that the property does not become otherwise contaminated. (See Farmer Mac Form 1010A)
8. Information, estimates, and opinions furnished to the Appraiser and contained in the report were obtained from sources considered reliable and believed to be true and correct. The Appraiser assumes no responsibility for accuracy of such items furnished the Appraiser.

9. Unless specifically cited, no value has been allocated to mineral rights or deposits.
10. Acreage of land types and measurements of improvements are based on physical inspection of the subject property unless otherwise noted in this Appraisal Report.
11. Water requirements and information provided has been relied on and, unless otherwise stated, it is assumed that:
  - a. All water rights to the property have been secured or perfected, there are no adverse easements or encumbrances, and the property complies with the rules and regulations of local, state, or federal agencies, including Bureau of Reclamation rules, as they apply to the subject;
  - b. Irrigation and domestic water and drainage system components, including fixed or hard-mounted distribution equipment and piping, are real estate fixtures;
  - c. Any mobile surface piping or equipment essential for water distribution, recovery, or drainage, if included in the subject property of this appraisal (e.g., pivot systems), is secured with the title to real estate; and
  - d. Title to all such property conveys with the land.
12. Disclosure of the contents of this report is governed by applicable law and/or by the Bylaws and Regulations of the professional appraisal organization(s) with which the Appraiser is affiliated.
13. Neither all nor any part of the report, or copy thereof, shall be used for any purposes by anyone but the client and intended users specified in the report without the written consent of the Appraiser.
14. Where the appraisal conclusions are subject to satisfactory completion, repairs, or alterations, the Appraisal Report and value conclusion are contingent upon completion of the improvements in a workmanlike manner consistent with the plans, specifications and/or scope of work relied upon in the appraisal.
15. **EXCLUSIONS.** In analyzing the subject property and its market the Appraiser considered and, as applicable, used the cost, income, and direct market sales comparison approaches to develop value indications and reconciled the results of the approaches completed to develop a final value conclusion. The explanation for excluding any of the three approaches in developing the final value conclusion is provided in this report.
16. **SCOPE OF WORK RULE.** The appraisal reflects a scope of work that is based on information from the client and this appraisal and report was prepared for the client's use and for use by Farmer Mac at their sole discretion within the framework of the intended use stated in the report. The use of this appraisal or report for any other purpose or use by any party not identified as an intended user of this report is beyond the scope of work contemplated in the appraisal, and without creating an obligation of the Appraiser.
17. Acceptance of the report by the client constitutes acceptance of all assumptions and limiting conditions contained in the report.
18. Other Assumptions and Limiting Conditions, including any extraordinary assumptions or hypothetical conditions (each applied on the basis of the client's written prior approval (as documented in Form 1037B), a copy of which is contained in the Addenda to this report).

**C. Report Exhibits****1. Plats / Maps**

Chapter CV101.4 contains a list of the kind of Exhibits that may be necessary to illustrate the physical characteristics of the subject property. The following guidance addresses technical aspects of:

**a) Location Map Exhibit and Global Positioning System (GPS) references**

The Location Map exhibit in a valuation report is to include, whenever possible, a GPS reference for the property. This reference should be as close as reasonably possible to the location of the main or most commonly used entrance to the property from the public access road or street.

The GPS reference can be identified by use of receiver equipment or by use of existing information systems that use the property address or a close substitute to locate the property on a Geo Coded map. The [www.ffiec.gov](http://www.ffiec.gov) website is cited in Chapter CV101.4-D (1) as a convenient source for the GPS reference that is available to the public.

There are several vendors of GPS equipment, and several brand names. Some equipment includes proprietary maps while other equipment includes public domain maps, such as from the USGS. A substantial amount of information on GPS and the hardware / software used to obtain GPS references is available on the Internet. A search for “GPS” entered at Yahoo.com or at Google.com can provide an exhaustive list.

Different GPS equipment and map systems can result in slightly different ground points on a map using the GPS references. It is important to include the complete “X” (Latitude) and “Y” (Longitude) references, which should include the projection, if any and the horizontal Datum. Preferably the X-Y coordinates should be in “un- projected” Latitude and Longitude, in decimal degrees.

If the coordinate data is in projected Latitude and Longitude, the data submitted should include: projection; zone (if applicable); map units (meters, feet, etc.); and datum.

When one is using the [www.ffiec.gov](http://www.ffiec.gov) website to identify the GPS reference for a property, rather than a GPS receiver while at the property, several situations can occur. The following is a summary of how one can handle two of those situations.

- i) The property address is known and entered correctly, but the GPS references do not appear when the map is displayed.

Adjust the scale of the map to higher resolution. Move the cursor to the approximate location to be referenced. After the map refreshes on the screen, click on the map scale button that is already highlighted. Look in the browser’s header bar. The X/Y coordinates appear in header bar.

- ii) The property address is unknown.

Enter the road or street name as the Address, the closest community or post office name as the City, the State and, if known, the Zip Code. Press “Enter” and adjust the scale of the map to where the approximate location of the property is visible. Then, follow the steps in No. 1 above.

### **Market Comparable Sale Location Map Exhibit**

The GPS reference for each comparable use in the analysis should appear, wherever possible, on the map exhibit, with the same equipment and system information as discussed above for the subject’s location map.

## **D. Farm and Ranch and Specialized Production Agricultural Facility Property Collateral Valuation Report Forms**

### **1. Overview**

These comment and guidance notes are provided to assist Originators, Sellers, Servicers, and appraisers in the use of the following forms.

As shown in the list below, some of the forms are required in every Appraisal Report. Those labeled “Example” forms illustrate information Farmer Mac requires in certain situations. Some forms are required only when certain property conditions exist.

**All information requested in the following Farmer Mac forms is required in all appraisal reports. In each case, an equivalent form may be used subject to approval by the Farmer Mac Underwriting Department.**

|            |   |
|------------|---|
| Form 1010A | <b>Environmental Disclosure</b> (a one-page form), or an equivalent disclosure form   |
| Form 1023A | <b>Sample Fee Appraiser Engagement Letter</b> (a three-page form), or an equivalent engagement document   |
| Form 1037  | <b>Assumptions and Limiting Conditions</b> (a two-page form), or an equivalent document   |
| Form 1037B | <b>Sample Assumptions and Limiting Conditions Agreement</b> (a one-page form) – Required when the report contains hypothetical conditions, or assumptions and/or limiting conditions that differ from those in the Form 1037. |

**Required in an Appraisal Report when the property includes irrigation or drainage conditions that affect value**

|            |   |
|------------|---|
| Form 1020A | <b>Agricultural Water Supply Questionnaire</b> (a four-page form, to be completed and signed by the borrower/s and provided to the appraiser at the time of engagement) |
|------------|---|



**Sample and Example forms (Use of these forms is optional)**

|            |  |
|------------|--|
| Form 1027A | <b>Appraisal Report Content Requirements</b> (a three-page form which may be used by the appraiser as a summary of the assignment and report content – use of this form is optional) |
| Form 1027B | <b>Allocation Table</b> (a one-page form)  |
| Form 1034  | <b>Permanent Planting Data Summary (Example)</b> (a one-page form with one “notes” page)   |
| Form 1035  | <b>Income Approach Data Summary (Example)</b> (a one-page form with one “notes” page)  |
| Form 1036  | <b>Sale Data Summary (Example)</b> (a one-page form with one “notes” page)   |

Forms 1034, 1035, and 1036 illustrate what information an appraiser must include in certain situations. An appraiser can use an alternate form to provide equivalent information.

**2. Obtaining Electronic Versions of Collateral Valuation Report Forms**

Sellers and other users of the collateral valuation forms should check the website to confirm that they are using the current form version.

Forms 1023A, 1027A, 1034, 1035, 1036, 1037, and 1037B are available on the Farmer Mac website at [www.efarmermac.com](http://www.efarmermac.com) by going to the Resource Library or in the Documents section of Approved loans in AgPower.

**3. Form User Guidance Notes**

As general background, the following notes use the term “originator” to identify the party that engages the appraiser in an appraisal assignment. In some cases, the appraiser is engaged in an assignment by a party that is a Seller and in other cases the party is an originator acting on behalf of and under contract with the Seller or Servicer.

Whichever party (originator, Seller, or Servicer) engages the appraiser in an appraisal assignment is identified as the appraiser’s Client. Farmer Mac is not typically a ‘Client’ in an appraisal assignment and, unless the appraiser is directly engaged in an assignment by Farmer Mac (such as by a Servicer), should not be identified as the Client.

Other users of the appraisal, such as Farmer Mac, are called intended users of the appraisal. These distinctions are important because they affect the appraiser’s obligations to the Client and the other intended users under professional standards, and affect the originator’s responsibility to other intended users.

The sequence of events in the process of obtaining candid and credible collateral valuation information begin with the originator’s contact with the loan applicant or borrower. The guidance provided here presumes a certain sequence in the use of the forms listed above. The actual sequence might well vary from loan to loan, but the end-result should be the same. This guidance also presumes the appraiser is an independent



contractor (fee appraiser). If the appraiser is an originator's employee, the form requirements apply but the process and sequence of using the forms is at the originator's discretion.

### **Form 1010A – Environmental Disclosure (a one-page form)**

**Requirement** – This form or its equivalent is a required part of the Appraisal Report.

**Purpose** – This form is designed to document information about the presence or absence of hazardous materials, underground storage tanks, and other property related conditions.

**Form Use** – The appraiser uses the form during the property visit to check whether the conditions observed at the property are consistent with the information provided by the party that completed the form. If the conditions are not consistent, the appraiser is to note the differences in the Appraisal Report. A copy of the form is to be included in the addenda to the Appraisal Report.

The originator uses the completed and signed form in the Appraisal Report addenda to determine whether action is necessary to clear-up differences between what the party initially completing the form stated and what the appraiser observed.

**Completed By** – The form is initially to be completed and signed by the loan applicant or the party responsible for the property (property owner, property owner's agent, etc.).

### **Form 1023A - Sample Fee Appraiser Engagement Letter - Farm and Ranch and Specialized Agricultural Facility Property (a three-page form), or a form providing equivalent information**

**Requirement** – An originator- and appraiser-signed copy of this form, or its equivalent, is a required part of the Addenda in all appraisal reports.

**Purpose** – This form is designed to document the terms, requirements, and conditions that apply in a specific appraisal assignment, and provide (in attachments) the appraiser with any other appraisal-related documents available to the originator at the time.

**Form Use** – The loan originator, Seller, or Servicer may use this form or an equivalent form to engage an appraiser.

If the loan originator, Seller, or Servicer uses an annual contract, individual appraisal assignments must be documented in a manner that references that contract.

**Completed By** – The originator is expected to enter information in place of the italicized words shown in **<brackets>** (such as names, addresses and dates), and to enter information such as the acreage, number of parcels, telephone numbers, etc. applicable to the appraisal assignment.

The appraiser that accepts the assignment is required to return a signed copy of the Form 1023A (or its equivalent) to the originator to document the appraiser's acceptance of the assignment.

The appraiser also includes a copy of the fully signed document in the Addenda to the Appraisal Report. This sequence is to ensure the parties have a common understanding of the assignment requirements at the onset of the appraisal and ensure all other intended users of the appraisal recognize the terms and conditions under which the work was performed.

### **Form 1027A (Appraisal Report Content Requirements)**

**Requirement – Form 1027A** may be used by the Appraiser to understand the basic information required in appraisals.

**Form Use** – The appraiser may use this form as a checklist to ensure each requirement is addressed. The originator may use the appraiser-completed form as a checklist in the process of reading the report and comparing the report contents with the requirements stated in the engagement document (Form 1023A or its equivalent).

### **Form 1027B – Allocation Table**

**Requirement** – This form or its equivalent is required in an appraisal report when:

The type of report is not the original AgWare UAAR form, and

The 'subject property' includes improvements with a combination of residential use and non-residential use building improvements, and permanent plantings.

**Note:** If the appraiser uses the original AgWare UAAR form set, the Form 1027B is not required because the original AgWare UAAR form set provides the needed allocation information.

Since the Component Appraisal Forms (UCAF) version of the AgWare UAAR form set does not include the needed allocation information, the Form 1027B or its equivalent is required as part of the UCAF version of the appraisal report.

If the report style/format is a narrative or a form set other than the original AgWare UAAR form set is used, the Form 1027B or its equivalent is required as part of the report.

**Purpose** – This form provides the Farmer Mac Underwriter with the information needed to evaluate appropriate loan terms and conditions, and identify what type of loan program is most appropriate given the subject property characteristics.

**Form Use** – The appraiser uses the form to allocate the final value opinion among the property components (Land, Site Improvements, Permanent Plantings, Residential Use

Building Improvements, Non-Residential Use building improvements, and Agricultural Use Equipment Components), and indicate the estimated remaining economic life of the depreciating components.

**Completed By** – The appraiser makes the entries on this form AFTER reaching the conclusion of total property value. Guidance on which property components are to be included in each category is provided within the form.

The Form 1027B should appear in the report AFTER the appraiser's final value conclusion information, such as after the report certification or in the report Addenda.

### **Form 1037 – Assumptions and Limiting Conditions** (a two-page form)

**Requirement** – This form (or equivalent form approved by Farmer Mac Underwriting department) is a required part of all appraisal reports.

**Purpose** – This form establishes a consistent set of “Assumptions and Limiting Conditions” that Farmer Mac can accept as normal in an appraisal assignment, and provides a way for appraisers and their clients to add to the normal set as needed.

**Form Use** – The appraiser uses this form to state the assumptions and limiting conditions, and any extraordinary assumptions or hypothetical conditions that were applied in the appraisal. The report reader uses this form to identify those factors and consider them in the underwriting process.

**Completed By** – The appraiser makes entries on this form to provide the “Report No.”, the property inspection response in Item 6, and to state the additional assumptions or limiting conditions agreed to by the client (as documented in Form 1037B) in Item 18.

If the appraiser is using the UAAR to document the appraisal, this form replaces the Assumptions and Limiting Conditions page in the UAAR form set. The Farmer Mac Form 1037 is available in the UAAR Forms Library, under the FAMC Forms section. The Form 1037B is also available in the UAAR Forms Library.

### **Form 1037B – Sample Assumptions and Limiting Conditions Agreement** (a one-page form)

**Requirement** – This form is required when the appraiser and client agree to the use of assumptions and limiting conditions other than or in addition to those shown in the Form 1037.

**Purpose** – This form is to be used to document the Client and appraiser's decisions when the report contains hypothetical conditions or assumptions and limiting conditions that differ from or add to those shown in the Form 1037.

**Form Use** – The appraiser and client use this form to show their agreement and, thereby, acceptance of responsibility for use of hypothetical conditions or assumptions and limiting conditions other than those shown in the Form 1037.

**Completed By** – The appraiser and client.

If the appraiser is using the UAAR to document the appraisal, this form is available in the UAAR Forms Library, under the FAMC Forms section.

**Form 1020** – Agricultural Water Supply Questionnaire (a four-page form)

**Requirement** – This form is required as part of the Appraisal Report addenda when the property includes irrigation that affects value.

**Purpose** – This form provides specific detail on the source, quality, and cost of irrigation water, and drainage conditions and costs.

**Form Use** – This form, completed by the property owner or the borrower, is to be available to the appraiser prior to or at the time of the property visit. The appraiser uses the information in the completed form to identify irrigation and property productivity and to compare that information with field observations and other irrigation and drainage information. A copy is to be included in the Addenda to the Appraisal Report to show that the Form 1020 information was available to the appraiser.

**Completed By** – The property owner or loan applicant completes this form. The originator must provide a copy of this form to the appraiser at the time the appraiser is engaged to provide the appraisal service.

**Forms 1034, Form 1035, Form 1036 (Examples)**

**Requirement** – The use of these forms is at the appraiser's option, but an alternative form or table must provide an equivalent level of data and analysis detail.

**Purpose** – Farmer Mac provides these example forms (Farmer Mac Form 1034 – Permanent Planting Data Summary, Farmer Mac Form 1035 – Income Approach, and Farmer Mac Form 1036 – Sale Data Summary), all in MS Excel for use by appraisers, as applicable, in a narrative style Appraisal Report.

Although appraisers usually have some kind of data summary and analysis forms of their own design, these forms illustrate the specific permanent planting, income approach, and sale data Farmer Mac requires.

**Form Use** – The appraiser may use these forms as part of the exhibits in a narrative report or in place of similar pages in a form set, such as the UAAR, or in a form set other than the UAAR.

**Completed By** – The appraiser completes these forms, as applicable.

**E. Collateral Assessment Report (CAR) – Farmer Mac Form 1047**

**Requirement** – See CV 101.8.B. Seasoned Loans

**Purpose** – This form documents a consulting service whereby the consulting appraiser provides a current status report on the security property and its market, reports on property or market changes since the date of the most recent appraisal, and provides recommendations regarding continued use or replacement of the most recent appraisal and use of the value in loan accounting.

If the recommendation is to obtain a new appraisal, the consulting appraiser is to also recommend a downward adjustment (stated as a percentage) in the value used in loan accounting by Farmer Mac. That recommended downward adjustment is to be used by Farmer Mac only until the new appraisal is received and accepted by Farmer Mac.

When the Report is provided by an appraiser AND includes a recommended downward adjustment to the value in the most recent Appraisal Report, the consulting appraiser is expected to document his or her assignment work file with the market data and analyses appropriate to support the basis for the downward percentage recommendation, and add a cover page that clearly states the attached Report is an “Appraisal Report”, and attach to the report package Farmer Mac Form 1037 (or Form 1037B) and the consulting appraiser’s certification statement in compliance with Standard 2 in USPAP.

**Form Use** – See CV 101.8.B Seasoned Loans

**Completed By** – The Seller completes the header and Section A of the form, and the appraiser completes the remainder.

## Chapter 201: Collateral Valuation – Loan Servicing

### CV 201.1 Collateral Valuation – Loan Servicing

**Overview:** This Chapter supplements the guidance contained in Seller/Servicer Guide Part 4 when a loan servicing action involves obtaining and using collateral valuation information.

The collateral valuation requirements that apply in a Servicing Action differ according to the situation that prompts the need for servicing, as summarized below.

#### A. Routine Servicing Actions

For guidance on collateral valuations in connection with routine servicing actions, such as partial releases, see Seller/Servicer Guide Part 4.

Contact the Central Servicer for guidance before engaging an appraiser on Partial Release applications that are nominal in relation to the total remaining collateral value.

A Direct Market Sales Comparison Approach or an Income Approach, whichever provides the most credible and reliable basis for the market value conclusion, is required in an Appraisal. A Cost Approach is also required when a property has structures and/or permanent planting improvements that contribute more than 10% to total property value.

For a partial release action, the “subject” of the appraisal must be the property remaining as security following the proposed change in the original collateral.

#### B. Distressed Loan Performance-Related Servicing

Review the Farmer Mac Seller/Servicer Guide Chapter 403 and consult with management prior to initiating a valuation update or new appraisal.

As required in Part 4 of the Seller/Servicer Guide, once foreclosure has been decided upon and/or the loan exceeds 120 days past due without a workout plan in place, except as noted below, the practice will be to update the Appraised Value of the collateral.

If a loan is being delivered for purchase under the Purchase Commitment Program (PC), the servicer should contact Farmer Mac well in advance of the anticipated purchase date. See Chapter 403.2 of the Seller/Servicer Guide for specifics on delivery expectations. It is critical that the current market value of the property is adequately documented and supported prior to the loan being purchased.



Given the circumstances that prompt the need for current collateral valuation information, the Central Servicer or, in appropriate situations, appointed legal counsel is to obtain an appraisal. The definition of Market Value referenced in Chapter CV101.1 is to be applied in the appraisal.

Separately, following discussion with Farmer Mac, legal counsel may be asked by Farmer Mac to obtain an appraisal review or consulting services by an appraiser. When needed, this information is to be obtained from a qualified appraiser selected by the Central Servicer in accordance with Farmer Mac's appraiser competency and qualification requirements (see Chapter CV101.2).

### **C. Obtaining Appraisal Reports**

It is important for the Central Servicer or Field Servicer to carefully select and work closely with the appraiser when an appraisal service is to be obtained.

The appraiser must have a clear understanding of the scope of the appraisal service assignment and intended use of the results in order to complete the assignment properly. Farmer Mac Form 1023A – Appraiser Engagement Letter (or its equivalent) should be used to document the engagement of the appraiser for the appraisal.

See Chapter CV201.1-E to determine which type of valuation to obtain. If obtained, the separate appraisal review or appraiser's consulting report is not to include the Appraisal Report in the same document, but must reference the Appraisal Report.

Property information provided to the appraiser must include, when available, a copy of the most recent Collateral Inspection Report (Farmer Mac Form 1038), Collateral Assessment Report (CAR, Form 1047), Appraisal Report(s), production and property income/operating expense history, and lease information.

The party obtaining the appraisal service should ask the appraiser whether he or she has the ability to produce an Adobe PDF version of the report.

If the appraiser has the ability to produce an Adobe PDF version of the report, the appraiser should send one hard copy of the report to the requesting party's office or the attorney, if an attorney does the engagement, in addition to the Adobe PDF version.

If the appraiser does not have the ability to produce Adobe PDF version, the appraiser should send one bound copy of the report to the party that engages the appraiser or, if an attorney is involved, to the attorney.

If the Central Servicer needs additional hard copies of the report, those should be requested as part of the appraiser engagement.

This handling and routing process applies only for distressed loan-related appraisal service reports.

## D. Minimum Requirements

All appraisal services for use in distressed loan performance-related servicing actions must comply with the following minimum requirements:

1. **Standards** – Services must conform to the applicable appraisal or appraisal review, or other ‘assignment’ requirements, such as consulting by an appraiser, in the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP) and, for an appraisal, in Chapters CV101.4 and, when applicable, CV101.5 and/or CV101.6.
2. **Assumptions, Limiting Conditions, Extraordinary Assumptions, and Hypothetical Conditions** – Except by prior written agreement between the appraiser and the party engaging the appraiser (as documented in Form 1037B), the only acceptable Assumptions, Limiting Conditions, Extraordinary Assumptions, and Hypothetical Conditions to be applied in an appraisal are those shown in Chapter CV101.9-B. (See Farmer Mac Form 1037 – Assumptions and Limiting Conditions).
3. **Intended Users** – Reports must include a statement that Farmer Mac and its agents or assigns are the only intended users of the assignment results, and that use by any other party is without obligation to Farmer Mac.
4. **Intended Use** – Reports must include a statement that the intended use of the assignment results is in a Farmer Mac-related distressed loan servicing action.
5. **Purpose** – The “purpose” in the appraisal assignment is to develop and report an opinion of “Market Value”.
6. **Date of Value in the Appraisal** – This date must be current, typically the date of the appraiser’s last property inspection or a date between the date of the report and the date of the engagement letter.
7. **Date of Report** – The Date of Report is the date the appraisal report is signed, and must appear concurrent with the appraiser’s signature.
8. **Scope of Work** – The type of valuation to obtain is indicated in the table in Chapter CV201.1-E.

The scope of work in an appraisal must include research and analysis to develop indications of the property’s production capability (including an estimate of typical gross and net farm income) under typical ownership and management.

When recent property production history is not available, the appraiser’s market analysis must consider the market’s reaction to a lack of actual property production history.

The appraiser’s property productivity analysis must take into account the property’s physical condition and attributes, including (when needed) the cost to cure adverse property conditions that resulted from the prior owner’s neglect or financial stress (e.g.,

deferred maintenance), and/or the impact on market appeal resulting from a need to convert the property use when its existing use is no longer economic (e.g., the existing commodity is no longer viable as a production basis).

This information is critical as it contributes to the Central Servicer's asset management recommendations or decisions that are made subsequent to receiving the result of the appraiser's consulting service.

## **E. Type of Appraisal Obtained**

As illustrated in the table below, the type of collection activity, the type of collateral and the original loan-to-value ratio allow for a differential approach.

For example, if a loan restructure is contemplated and (1) the transaction is relatively simple, (2) the collateral is open ground and the most recent loan to value ratio is less than 60%, and (3) there is no evidence of collateral value decline since the last appraisal, a Collateral Inspection Report (Farmer Mac Form 1038) or a Collateral Assessment Report (CAR) (Farmer Mac Form 1047) may suffice. Conversely, if (1) the restructure is complex, (2) the collateral is highly improved, or (3) the most recent loan-to-value ratio is greater than 60%, an appraisal may be necessary.

See Chapters CV101.4 and CV101.5 for details on each type of valuation and for report content requirements. This table is intended to serve as a guide. Situations may arise where it would make business sense to deviate from this guidance. Such deviations may be allowed, but require the approval of Farmer Mac.

| <b>Category</b>                          | <b>LTV<br/>(Most Recent)</b> | <b>Type of Valuation</b>   | <b>Type of Report<sup>1</sup></b> |
|--|------------------------------|--|-----------------------------------|
| Bankruptcy<br>or<br>Foreclosure          | N/A                          | Appraisal <sup>2</sup>   | Appraisal Report                  |
| Debt Compromise                          | N/A                          | Appraisal <sup>2</sup>   | Appraisal Report                  |
| Acquired Property                        | N/A                          | Appraisal <sup>3</sup> (prior to acquisition)<br><br>Collateral Valuation Update<br><br>(12-month cycle while REO) | Appraisal Report                  |
| Formal Restructure                       | >60%                         | Appraisal <sup>2</sup>   | Appraisal Report                  |
| Deed In Lieu                             |                              |  |                                   |
| Highly Improved or Facility Property     | N/A                          | Appraisal, including a Cost and an Income Approach <sup>3</sup>  | Appraisal Report                  |
| Not Highly Improved or Facility Property | N/A                          | Appraisal <sup>2</sup>   | Appraisal Report                  |

1. An Appraisal Report is typically sufficient. There may be situations where additional detail may be necessary. This may occur during bankruptcy or litigation where additional information detail will be beneficial in court. The use of the report should be evaluated on a case-by-case basis, however. There may be situations where too much information may confuse issues instead of clarifying them.
2. A Direct Market Sales Comparison Approach or an Income Approach, whichever provides the most credible and reliable basis for the market value conclusion, is required in an Appraisal of an unimproved property, and a Cost Approach is also required when the property includes structures or permanent planting improvements with significant contributory value.
3. For a facility, the market analyses must address industry and commodity-related supply and demand as of the date of value and as of the date of the sale comparables, with condition differences between those dates addressed in the analyses.
4. Completed by Servicer as required in Chapter 4 of the Seller/Servicer Guide. See Guide Chapter 403.10 and Chapter CV101.9-E for guidance and limitations on use of the Collateral Assessment Report (CAR) (Farmer Mac Form 1047) and Guide Chapter 401.3 for guidance on use of the Collateral Inspection Report (Farmer Mac Form 1038). Examples of both forms are in the Forms Section of this CV Supplement.