

Chapter CV201 Collateral Valuation – Loan Servicing

CV201.1 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.

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 and Chapter CV101.3-C of this CV Supplement.

B. Distressed Loan Performance-Related Servicing

As required in Chapter 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.

Note: As explained in Chapter 403.3, in situations where obtaining a current appraisal may not be feasible or make business sense (e.g., in cases when advised by counsel that doing so would adversely impact Farmer Mac’s collection posture), the Central Servicer shall make a recommendation to Farmer Mac to support deviating from this requirement and will complete a Collateral Assessment Report (CAR) in accordance with Chapter 403.9.

If a loan is being delivered for purchase under the Long-Term Standby Commitment Program (LTSCP), 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 other appraisal services such as appraisal review or appraisal consulting services. 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 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 and what kind of appraisal report (*Summary* or *Self-Contained*) to obtain. If obtained, the separate appraisal review or appraisal 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.

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, appraisal review, or appraisal consulting requirements 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, 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 take into account 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 appraisal 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.

Category	LTV (Most Recent)	Type of Valuation	Type of Report ¹
Bankruptcy or Foreclosure	N/A	Appraisal ²	Summary Report
Debt Compromise	N/A	Appraisal ²	Summary Report
Acquired Property	N/A	Appraisal ³ (prior to acquisition) Collateral Valuation Update (12-month cycle while REO)	Summary Report
Formal Restructure	>60%	Appraisal ²	Summary Report
	<60%	Collateral Inspection Report ⁴ and CAR ⁴	
Deed In Lieu			
Highly Improved or Facility Property	N/A	Appraisal, including a Cost and an Income Approach ³	Summary Report
Not Highly Improved or Facility Property	N/A	Appraisal ²	Summary Report
Agreed Forbearance		Collateral Inspection Report ⁴ and CAR ⁴	

1. A Summary Appraisal Report is typically sufficient. There may be situations where a Self-Contained Appraisal Report may be necessary. This may occur during bankruptcy or litigation where the additional information found in the Self-Contained Appraisal Report will be beneficial in court. The use of a self-contained 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 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.