



***Collateral Valuation Matters***  
***Improving Client's Appraisal Experience***  
***with Farmer Mac***

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*April 18, 2017*

# *Collateral Valuation Matters*

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- Workshop Objectives
  - Aid lenders/clients in how to obtain acceptable appraisals for use in Farmer Mac-related loan transactions.
    - Guide clients on where to locate appraisal forms and guides.
  - Reduce the frequency of ‘recycles’ necessary to repair faulty appraisal reports.



# Appraisal Resources

- Where do I locate all the appraisal forms and guides mentioned into today's presentation?
- [www.efarmermac.com](http://www.efarmermac.com) > Resource Library

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FINANCING RURAL AMERICA

## Login

Please enter your user name, password and captcha to login to the Farmer Mac Website.

If you have forgotten your password, please click on the forgot password button below to reset your password.

User Name/Email: amy\_danner@farmermac.com X

Password: .....

Type Captcha: 2016f

[Login](#) [Forgot Password](#)

[Resource Library](#)

Visit our Resource Library for important documents such as the Seller/Service Guide and Collateral Valuation Supplement and many more.

## Resource Library

### Seller/Service Guide

Seller/Service Guide  
Conversion Grid  
Non-participating Spouse Estoppel Certificate  
2017 Rural Home Loan Moderately Priced Housing Value  
Permanent Planting Development Loans  
AgEquity Product Description  
ARM Product Description  
VRM Product Description  
Fixed Rate Product Description  
Payment Schedule Information

### Farm & Ranch Training Materials

Farm & Ranch Training Kit  
Process Overview  
Product Guide  
Underwriting Matrix  
Application Checklist  
Narrative Template  
**Appraisal Guide**  
Title Guide  
Rate Lock Guide  
Closing Guide  
Field Service Guide  
PPDocs User Guide  
Administrator Guide

### Collateral Valuation Supplement

Collateral Valuation Supplement

### Collateral Valuation Forms

Comment and Guidance on Collateral Valuation Report Forms  
Sample Fee Appraiser Engagement Letter (Form 1023A) \*  
Appraisal Report Content Requirements (Form 1027A)  
Assumptions and Limiting Conditions Example (Form 1037) \*  
Environmental Disclosure (Form 1010A) \*  
Irrigation and Drainage Supplement (Form 1013A)  
Permanent Planting Data Summary Example (Form 1034)  
Income Approach Example (Form 1035)  
Market Sale Data Summary Example (Form 1036)  
Collateral Assessment Report (CAR) (Form 1047)  
Allocation Table (Form 1027B)  
Collateral Inspection Report (Form 1038)



# Property Insights

- Farm & Ranch Appraisal Guide
  - The appraisal is instrumental to our understanding of the loan security.
  - It should include the physical, legal, and economic characteristics of the property, the market's attributes, and the property's income producing capacity and market value.
- Which forms are required?

**PROPERTY INSIGHTS** **FARM & RANCH APPRAISAL GUIDE**

**FARMER MAC**

Help us help you. The appraisal is instrumental to our understanding of the loan security. It should include the physical, legal, and economic characteristics of the property, the market's attributes, and the property's income producing capacity and market value.

**REQUIRED FORMS\*:**

- Engagement Letter**  
Form 1023A  
*may be customized by the lender*
- Environmental Disclosure**  
Form 1010A
- Assumptions and Limiting Conditions**  
Form 1037
- Irrigation/Drainage Supplement**  
Form 1013A  
*only required when the property includes irrigation or drainage conditions that affect the value*

**ADDITIONAL SUPPORT:**  
The **Preferred Appraisal List (PAL)** is a database of experienced appraisers who are familiar with our appraisal requirements.  
Locate PAL within the "Preferred Appraiser" section at [efarmermac.com](http://efarmermac.com)

**1** The appraiser must be a State Certified General Appraiser OR if the highest and best use of the proposed security is a rural residential use property AND the property is improved with an existing residence with significant contributory value, a State Certified Residential Appraiser is acceptable.

**2** The **Appraisal Report Content Requirements** (Form 1027A) defines the scope of work and expectations for appraisal report content.  
**TIP:** Many originators attach this to their **Engagement Letter** as a means to share those expectations with the appraiser.

**3** "Date of Value" in the appraisal must be less than 365 days prior to the date the loan is purchased by Farmer Mac.

**4** The **Collateral Valuation Supplement** provides detail on our appraisal standards and guidelines. You are responsible for ensuring that the appraisal is conducted in accordance with Farmer Mac requirements. For preliminary loan approvals, the property value may be estimated.

**5** Intended users of the appraisal must include, "Farmer Mac and its agents or assigns."

Locate current versions of all appraisal forms and guidelines within the **Resource Library** at [efarmermac.com](http://efarmermac.com).



## *Collateral Valuation Matters*

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- Collateral Valuation Supplement (CV) Section 101.2, General
- 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.
  - 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.



# *Collateral Valuation Matters*

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## **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.



## *Collateral Valuation Matters*

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- Collateral Valuation information aids the ‘Credit Decision’, affecting four of the five ‘Cs’:
  - The “V” in LTV (‘Conditions’)
  - All or part of the “A” in D/A Ratio (‘Capital’)
  - All or part of the “C” in TDC Ratio (‘Capacity’)
  - The “Collateral” component in Loan Analysis (One of the Five C’s, but usually affects ‘Conditions’ as well)
  - A source of capital recovery in the event of loan default



# *Appraisals & Appraisal Reviews*

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## **Appraisal Process**

1. Engagement
2. Research
3. Verification/Confirmation
4. Analyses
5. Highest & Best Use
6. Approaches (Develop 'Indications')
7. Reconciliation/Conclusion (The Opinion)
8. Communication (Report)





# *Appraisals & Appraisal Reviews*

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- Of those eight steps, the most essential to get right is?
- Engagement!

*Match the skill set with the complexity of the valuation problem and significance of the collateral information to the 'Credit Decision'*



# Appraisals & Appraisal Reviews

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- Farmer Mac Form 1023A ‘**Sample Fee Appraiser Engagement Letter**’
- Designed to aid the Lender (Client) and Appraiser in an assignment

## – Essential Elements:

- This assignment is placed with you on the express condition that your certification constitutes your representation that the assignment was accepted and performed by you with knowledge of and in compliance with Farmer Mac’s scope of work, report content, and disclosure requirements applicable in the assignment. . (See Form 1027A, attached)
- Upon your acceptance of this assignment, <***Institution Name***> is your Client. ...
- The following are enclosed or will be provided as indicated to assist you in your work:

- |       |   |     |   |
|-------|---|-----|---|
| - ___ | Legal Description / Title Report              | ___ | Property Use History                        |
| - ___ | Irrigation / Drainage Supplement (Form 1013A) | ___ | Assumptions/Limiting Conditions (Form 1037) |
| - ___ | Environmental Forms (Form 1010A)              | ___ | Property Marketing History                  |



# Appraisals & Appraisal Reviews

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## Essential Elements: (Cont.)

- All appraisals must comply with the following minimum requirements.
  1. **Competency:** Your engagement in this assignment is predicated on your being able to personally complete it in compliance with the assignment requirements. ...
  2. **Assumptions, Limiting Conditions, Extraordinary Assumptions, and Hypothetical Conditions:** Farmer Mac will accept the Assumptions and Limiting Conditions, shown in the attached Farmer Mac Form 1037. If you believe there is a need to apply others or Extraordinary Assumptions and/or Hypothetical Conditions, please contact <**client contact name and telephone number**> to obtain our prior agreement.
  3. **Intended Users and Intended Use:** <**originating lender(s)**>, <**Seller**> <**Servicer**> and Farmer Mac are intended users of your assignment results. We may, without your prior authorization or a notice to you, provide your report or elements of it to other parties for their use in lending-related activities. It is our intention to use your assignment results in a Farmer Mac-related loan transaction or servicing action, or in similar lending-related transactions.



# *Appraisals & Appraisal Reviews*

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## Essential Elements: (Cont.)

- **Acceptance Audit and Appraisal Review:** Your Appraisal Report will be read and the result compared to your responses to the requirements stated in this engagement letter. ...
- **Subsequent Requests:** You may be contacted to provide responses to questions resulting from our reading or review of your report. By accepting this assignment, you agree to respond promptly to our subsequent requests. When the cause of our subsequent request is a deficiency in your appraisal or report that was under your control, you agree to cure that deficiency promptly without cost to us.
- **Supplemental Assignments:** If, during or following completion of your work, we determine a need for additional research, analysis, or supplemental appraisal information, that need may be addressed as a supplemental assignment.



# *Appraisals & Appraisal Reviews*

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- Agricultural Use Property – Critical Information
- Physical Characteristics
  - Location
  - Access
  - Soil
  - Topography
  - Water Supply / Drainage
  - Climate
- Economic Characteristics
  - Income Producing Capacity



# *Appraisals & Appraisal Reviews*

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- Water (Irrigation and Livestock or Facility)
  - Source (Where does it come from?)
  - Quantity (Is there enough?)
  - Quality (Is it helpful or damaging?)
  - Stability (Is it always available?)
  - Cost (Can one afford to use it?)
  
- Drainage
  - Flood Hazard
  - Drainage Tile
  - Runoff (Pollution Issues, 'Nutrient' Management?)



# Appraiser Options

- Preferred Appraiser List (PAL)
- Nomination of experienced appraisers is encouraged
- Access through Efarmermac.com

## FARMER AC

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- Contact Us
- AgPower
- My Profile
- Preferred Appraiser**
- Rates
- Resource Library
- Annual Certification
- Logout

### Preferred Appraiser List

\* Please enter at least ONE of the following fields to start with your search.

**General Information**

Last Name:

First Name:

**Business Information**

Business Name:

City:

State:   Zip:

**License**

License State:

License Type:

**Professional Designation**

Designation:

**Service Area**

Service State:

Service County:

**Property Type**

Property Category:

Property Specs:



# What Matters Most

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- What's important to you?
- What can we do better or different to ensure a satisfactory experience?
- Contact Us!

## **Client Services**

[ClientServices@FarmerMac.com](mailto:ClientServices@FarmerMac.com)

**866-452-2617**

Contact for: general program assistance,  
training, technical issues, loan onboarding &  
processing questions

## **Business Development**

[Opportunities@FarmerMac.com](mailto:Opportunities@FarmerMac.com)

**800-879-3276**

Contact for: products & solutions,  
relationship management & marketing

## **Rate Lock Desk**

[ClientServices@FarmerMac.com](mailto:ClientServices@FarmerMac.com)

**800-879-3276**

Hours of Operation: 10 a.m. – 3 p.m. ET  
Contact for: rate lock requests,  
extensions & withdrawals

## **Underwriting**

[Underwriting@FarmerMac.com](mailto:Underwriting@FarmerMac.com)

**866-452-2617**

Contact for: loan eligibility,  
credit & underwriting

## **Servicing**

[Servicing@FarmerMac.com](mailto:Servicing@FarmerMac.com)

**866-452-2617**

Contact for: loan servicing

## **Farmer Mac 2**

[FM2@FarmerMac.com](mailto:FM2@FarmerMac.com)

**877-770-3644**

Contact for: USDA Guaranteed loans  
For more information visit  
[www.farmermac2.com](http://www.farmermac2.com)







***Thank You***

***Contact Us: [ClientServices@farmermac.com](mailto:ClientServices@farmermac.com)***

***Corporate Headquarters (DC): 800-879-3276***  
***Underwriting & Client Services Office (IA): 866-452-2617***