Collateral Valuation Matters

Improving Client’s Appraisal Experience
with Farmer Mac

April 20, 2017

Collateral Valuation Matters

• 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

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?
Collateral Valuation Matters

• 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

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**

- 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

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**Appraisals & Appraisal Reviews**

**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**

- 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**

- Will we accept appraisals that were prepared for other lending institutions (i.e. third party appraisals)?
- Yes...if....
  - Collateral Valuation Supplement, pages 12 and 13.
Appraisals & Appraisal Reviews

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

Appraisals & Appraisal Reviews

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

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.

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Appraisals & Appraisal Reviews

- Agricultural Use Property – Critical Information

- Physical Characteristics
  - Location
  - Access
  - Soil
  - Topography
  - Water Supply / Drainage
  - Climate

- Economic Characteristics
  - Income Producing Capacity
Appraisals & Appraisal Reviews

• 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
**Appraisal Process**

- Expectation that seller/lender has reviewed the report

- Upload the report to:
  - AgPower > Communication/Attachment Tab

- Once preliminary title report and appraisal are received, Farmer Mac will assess the reports and issue a Conditions Prior to Funding (outlines items that must be satisfied prior to purchase)

- Allow at least 2 business days for Farmer Mac review

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**What Matters Most**

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

Contact Us: ClientServices@farmermac.com

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