



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 > Resource Library

Resource Library

Seller/Servicee Guide
 Seller/Servicee Guide
 Conversion Grid
 Non-participating Appraise Entitled Certificate
 1001 Rural Home Loan Moderately Priced Housing Value
 Permanent Floating Development Loans
 Age/Equity Product Description
 ARM Product Description
 VISA Product Description
 Fixed Rate Product Description
 Payment Schedule Information

Farm & Ranch Training Materials

Farm & Ranch Training Kit
 Present Overview
 Product Guide
 Underwriting Matrix
 Application Checklist
 Scenario Template
Appraisal Guide
 Title Guide
 Rate Lock Guide
 Closing Guide
 Field Service Guide
 FFDOs Use Guide
 Administrative Guide

Collateral Valuation Supplement

Collateral Valuation Supplement

Collateral Valuation Forms

Comment and Guidance on Collateral Valuation Report Form
 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 Floating 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 1048)
 Collateral Inspection Report (Form 1058)

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

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

Locate current versions of all appraisal forms and guidelines within the Resource Library of efarmermac.com.

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



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



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

The screenshot shows the 'Preferred Appraiser List' search form on the Farmer Mac website. The header includes the 'FARMER MAC' logo and the tagline 'FINANCING RURAL AMERICA'. A navigation menu on the left lists: Contact Us, AgPower, My Profile, Preferred Appraiser (highlighted), Rates, Resource Library, Annual Certification, and Logout. The main form area is titled 'Preferred Appraiser List' and includes a search instruction: '* Please enter at least ONE of the following fields to start with your search.' The form is divided into several sections: 'General Information' with fields for Last Name and First Name; 'Business Information' with fields for Business Name, City, State (a dropdown menu with '(All States)' selected), and Zip; 'License' with fields for License State (dropdown with '(All States)' selected) and License Type (dropdown with '(All Types)' selected); 'Professional Designation' with a Designation field; 'Service Area' with fields for Service State (dropdown with '(All States)' selected) and Service County (dropdown with '(All Counties)' selected); and 'Property Type' with fields for Property Category (dropdown with 'All Categories' selected) and Property Spec (dropdown with '(All Types)' selected). A 'SEARCH PREFERRED APPRAISER(S)' button is located at the bottom of the form.



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



What Matters Most

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

Client Services
ClientServices@FarmerMac.com
866-452-2617
Contact for: general program assistance,
training, technical issues, loan onboarding &
processing questions

Business Development
Opportunities@FarmerMac.com
800-879-3276
Contact for: products & solutions,
relationship management & marketing

Rate Lock Desk
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
866-452-2617
Contact for: loan eligibility,
credit & underwriting

Servicing
Servicing@FarmerMac.com
866-452-2617
Contact for: loan servicing

Farmer Mac 2
FM2@FarmerMac.com
877-770-3644
Contact for: USDA Guaranteed loans
For more information visit
www.farmermac2.com





Thank You

Contact Us: ClientServices@farmermac.com

Corporate Headquarters (DC): 800-879-3276

Underwriting & Client Services Office (IA): 866-452-2617