

FARM SERVICE AGENCY APPRAISAL GUIDELINES – GUARANTEED LOAN PROGRAM

Land, Agricultural Improvements, CAFO, Rural Residence, Farm

The information elements and content descriptions below are provided as guidelines to assist lenders and appraisers to deliver a USPAP compliant appraisal report acceptable to Farm Service Agency (FSA). Information Element labels should be used in the report for clarity.

An Appraisal Report following these guidelines and completed by a qualified Certified General Real Estate Appraiser will meet FSA’s underwriting rules. Refer to Appraisal Guideline Addendums for specialty type properties like (i.e. poultry, dairy, etc.)

If you have a unique situation that doesn’t fit the guidelines below, please contact FSA with questions so we can help.

| Item | Information Element | Content Description |
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| 1 | Client | The Client will be the lending institution as designated on the appraisal order or Letter of Engagement (LoE). Appraisal must be ordered by a financial institution. |
| 2 | Intended User(s) | The Intended User(s) will be the lending institution and others as listed by the Lender on the appraisal order or LoE. FSA should be included as an intended user along with others that will rely upon the report. Do not include the borrower or property owner as an Intended User. |
| 3 | Intended Use | Loan Origination or Loan Servicing. |
| 4 | Appraisal Report | <u>Prominently</u> state the “Appraisal Report” option. Ensure the report meets the contents of an “Appraisal Report” from USPAP and these FSA Guidelines. <ul style="list-style-type: none"> i. Must have a Table of Contents with all pages being sequentially numbered ii. Appraiser Resume listing applicable appraisal education and experience iii. Restricted reports are not acceptable |
| 5 | Purpose, Condition, Effective Date of Value, Inspection & Report Dates | Purpose is to provide an “Opinion of Market Value”. The condition of the subject should be; “As Is”, “As Improved”, or “Subject To”. If “As Improved” or “Subject To” is used, describe why. State the Effective Date, Inspection date and Report date. The inspection date should typically be the effective date of value. Explain if it is not (such as in a retrospective appraisal). |
| 6 | Market Value | Definition and source of “Market Value” |
| 7 | Hypothetical Condition / Extraordinary Assumptions | All hypothetical conditions and extraordinary assumptions shall be <u>clearly</u> and <u>conspicuously</u> described and state that their use might have affected the assignment results. For proposed new construction, a “Hypothetical Condition” would apply. |
| 8 | Estate Appraised | Define the estate property rights; Fee simple, Leased fee, Leasehold, Life Estate, etc. and list restrictions to the estate (conservation easements, water rights, encumbrances, contracts, marketing agreements, etc.) |
| 9 | Scope of Work | Clearly identify the appraisal problem and provide a summary of the extent of research, verification and analysis to solve it, consistent with fulfilling USPAP Scope of Work rule, Client instructions and these guidelines. Include the appraisal order or LoE along with any scope of work modifications, if applicable. |

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| 10a | Subject Property | <ul style="list-style-type: none"> i. Adequately identify the subject property with a legal description, map, tax number and / or 911 street address if improved. Include a GPS (latitude/longitude) reference if available. ii. Review & discuss listing / auction information and seller disclosures when applicable. iii. Analyze Flood Zone and Flood Map and identify if flood zone affects the subject property and reflect the effect of flood zone in the analysis of subject utility and market appeal, summarizing the result in the Appraisal report. iv. Provide and label color photos for dwelling and major improvements that contribute to value. Provide bare land photos for significant topographical features and permanent plantings. |
| b | Physical Characteristics | <ul style="list-style-type: none"> i. Inspect all structural improvements on the subject. Interiors of major buildings shall be inspected. If a physical inspection is not possible, contact the Client for authorization to continue without a physical interior inspection. ii. Include a sketch of subject dwelling(s) with contributory value and other major buildings if applicable. Sketches should provide basis for determining structure size. iii. Include a color site aerial or sketch with labels for numerous buildings (dairy, swine, poultry, headquarters, etc.) iv. Provide color aerial, soil, topographical, permanent plantings and / or other applicable maps. Show property outlines and labels on the maps to describe the property. Include soil legend with soil map. v. Discuss fixtures and personal property (ensure you have adequate justification for classification and valuation of personal property and fixtures). vi. Summarize any environmental concerns in the appraisal report discovered during the property inspection, and discuss their <u>effect on value</u>. This does not meet the due diligence requirements of the FSA for an environmental inspection. |
| c | Legal Characteristics | <ul style="list-style-type: none"> i. Any impacts of zoning, easements, contracts, entitlements, encumbrances, water rights, partial interests, etc. shall be discussed and should be supported from the market if value adjustments are required. ii. Describe (not state) zoning to include; building eligibility, minimum lot size, feedlot registration / permits and other pertinent factors that are applicable for the market area. iii. Describe irrigation, drainage and related permit issues in the appraisal report |
| d | Economic Characteristics | Economic impacts or characteristics of productivity, production and ownership costs, gross and net income, etc., shall be discussed and supported from the market if value adjustments are required. Discuss general market economics, or the economics of a specialized facility. |
| e | Characteristics of the Estate being appraised | As part of the appraisal assignment under USPAP, characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal must be considered; the property appraised must be identified including the property rights . This typically will include surface and subsurface rights, if the estate of the Subject property is whole. Consideration of oil, gas, minerals, timber, etc., and their possible influence on the value of the Subject property constitutes good appraisal practice and should be discussed in the appraisal report. |
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| f | New Construction | The report shall include a copy of a blueprint, draft, and / or sketch, provided to the appraiser along with a summary of cost estimates for the project. Client shall provide adequate documentation for the appraiser to develop a credible appraisal that is not misleading |
| g | Location | Describe the demographics, community services and market influences of the area. Discuss economic, industry and market trends. Identify the similar market area neighborhood or similar facility types for comparable sales. |
| 11 | Subject & Sales History | Analyze current sale agreements, options, or listings of the subject. Research, analyze and report any prior sales of the subject or comparable sales within three years for all property types. |
| 12 | Highest and Best Use | Consider each factor of H&BU; legally permissible, physically possible, financially feasible and maximally productive (highest value). Describe and state reasoning and analysis for H&BU based on subject characteristics and market influences. Develop H&BU for “as vacant” and “as improved” when necessary. Land and improvements must be valued with the “consistent use” concept. |
| 13 | Comparable Sale Data and Analysis | <p>Sales should be selected that have similar attributes of the subject, should be described and analyzed so the reader has a clear understanding of how they support the “opinion of value”. H&BU of comparable sales should be consistent with H&BU of subject.</p> <ol style="list-style-type: none"> i. Provide important attributes of the sale; date, price, terms, legal description, 911 street address when improved, tax #, land classes, improvement description. ii. Include a color site aerial or sketch w/ labels for numerous buildings (dairy, swine, HQ, etc.). iii. Provide color aerial, soil, topographical, permanent plantings and / or other applicable maps. iv. Color photos shall show dwelling and major improvements that contribute to value. v. Disclose how the sale was verified and marketed with a party to the transaction. vi. Provide bare land photos for significant topographical features and permanent plantings. vii. Summarize or include legible copies of the CRV, MLS, contracts, carry back mortgages, or other similar supporting documentation (retain documents in your work file). viii. Discuss fixtures and personal property (ensure you have adequate justification for classification and valuation of personal property and fixtures). ix. Sale analysis shall easily verify the applicable units of comparison and rates that support the value of the subject. For example; land class ratio, building replacement cost new, derived depreciation rates, improvement contribution, contribution of timber, minerals, water rights, etc., as well as income and expense estimates should all be analyzed consistently and the analysis should support the subject analysis. Describe how land allocations were made. |
| 14 | Contracts for Production, Marketing or other similar agreements, | <p>Summarize market / production contracts, marketing plans, or other similar documents for the subject and sales.</p> <ol style="list-style-type: none"> i. If a market/production contract exists in which the value of the subject property is dependent upon the contract (i.e. poultry contract), then an analysis of the relationship of the contract to the subject’s real property and how the contract impacts the value of the real property must be explained in the appraisal report. ii. Similar sales with similar contracts should be used to value the subject if a market / production contract is in place. |

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| 15 | Location Map | Location map shall easily locate subject and sales. The location map should provide sufficient detail for the reader to locate the properties if the other maps provided in the report do not have sufficient detail to locate the properties. Roads by name or number may be needed to find the property. |
| 16 | Value Approaches | <p>All three approaches to value should be considered and used when necessary for credible assignment results. It is acceptable not to use an approach provided solid justification that the approach is not necessary for credible results.</p> <ol style="list-style-type: none"> i. The Income Approach should be included for agricultural income producing properties. ii. Land classification should be based on the market of the subject and sales. iii. When value adjustments are required for physical characteristics (access, soils, water features, view, topography, drainage, climate, size, shape, site and structure improvements, permanent plantings, etc.) they shall be discussed and supported from the market. iv. Subject pending sale can't be used as a comparable, but needs to be analyzed & discussed. |
| 17 | Sales Comparison Approach | <p>Provide a sales base within the report to adequately support the analysis.</p> <ol style="list-style-type: none"> i. Units of comparison should be derived from the market. ii. Sales must be analyzed within the report so the reader can understand how the appraiser has applied those units of comparison to the Subject. iii. Explain reasoning for adjustments in the Sales Comparison Approach. iv. Reconcile strengths and weaknesses of the Sales Comparison Approach. |
| 18 | Cost Approach | <p>Provide a sales base within the report to adequately support the analysis.</p> <ol style="list-style-type: none"> i. Describe construction quality, utility and condition ii. Provide support for land value and RCN within the appraisal report. iii. Extract depreciation from the sales analysis in the report so the reader can understand the reasoning for applying depreciation rates to the subject. iv. Reconcile strengths and weaknesses of the Cost Approach. |
| 19 | Income Approach | <p>Provide a sales base within the report to adequately support the analysis.</p> <ol style="list-style-type: none"> i. Provide support for income, expenses, and rates within the appraisal report. ii. Analyze sales for the applicable rate that is used. iii. Explain reasoning for subject income, expense and rate selection. iv. Reconcile strengths and weaknesses of the Income Approach. |
| 20 | Reconciliation | Describe support for the "opinion of value" reviewing strengths and weaknesses of each approach to value and discuss the reconciliation. Consider the "value of whole versus sum of the parts". |
| 21 | Certification | Include the signed Certification compliant with the <u>current</u> USPAP. Include Signature(s), state(s) of licensure, full name of license class and license number(s), i.e. "MN Certified General Real Property License 20000001." Do not abbreviate license class, i.e. "CRRPA" |