Administrative Review of Appraisals Desk Guide

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Introduction

WELCOME

Welcome to the Administrative Review of Appraisals Course. This course takes a look at what is involved in conducting administrative appraisal reviews. It covers the things you need to look for in an appraisal report, as well as how to complete an administrative appraisal review form.

This course consists of four modules, and was designed to be completed in about 1 hour.

ABOUT THIS COURSE

This course first introduces you to administrative appraisal reviews, and then explains how these reviews are conducted. The sections of this course are designed to build your learning as you complete each one and are organized as follows.

- Introduction. This module provides an overview of and introduction to the course.

- The Basics of Administrative Appraisal Review. This module provides a brief historical overview of appraisal reviews, defines and describes appraisals and appraisal reviews, and introduces you to the FSA-2165, Administrative Appraisal Review Form.

- Your Tool for Conducting an Administrative Appraisal Review. This module presents an item-by-item breakdown of how to complete the FSA-2165 to conduct an administrative appraisal review.

- Tying it All Together. This module reviews and summarizes key points and next steps, reminds you of resources available to you (e.g., job aids, sample forms, regulations, and any additional reference material), and wraps up the training.

If you are taking this course for the first time, you will gain the most by completing each module in sequence.

WHO COMPLETES THIS COURSE AND WHY

The audience for this course includes any agency official who is required to perform administrative appraisal reviews. In order to perform these reviews, you must be trained and granted administrative appraisal review authority. Completing this course is your first step in obtaining this authorization.

The purpose of this course is not to make you an appraisal expert. Instead, completing this course will help you understand:

- What an administrative appraisal review is and what it entails
- How to complete an FSA-2165, Administrative Appraisal Review Form
- Appropriate steps to take to be granted administrative appraisal review authority

KEY POINTS

The key points in this module include:

- The course introduces you to administrative appraisal reviews and explains how these reviews are conducted.
- The purpose of this course is not to make you an appraisal expert, but to help you understand what an administrative appraisal review entails, how to complete an FSA-2165, Administrative Appraisal Review Form, and how to obtain administrative appraisal review authority.

The Basics of Administrative Appraisal Review

INTRODUCTION

This module provides a brief historical overview of appraisal reviews, defines and describes appraisals and types of appraisal reviews, and introduces you to the FSA-2165, Administrative Appraisal Review Form.

In this module, we will cover the following topics:

- Why do we conduct appraisal reviews?
- Introduction to appraisal reviews
- Who is involved
- When administrative appraisal reviews are conducted
- Purpose and goals of administrative appraisal reviews
- Overview of the FSA-2165
- Layout of the FSA-2165

WHY DO WE CONDUCT APPRAISAL REVIEWS

The bank and saving and loan crisis of the 1980s caused the country to take a close look at appraisal and lending practices. In fact, a Congressional study was conducted and found that 30 to 50 percent of the failures in the 1980s were from insider abuse and mortgage fraud, including collusion between lenders, borrowers, and appraisers.

The FSA took notice and recognized the need for conducting comprehensive appraisal reviews. While this would ultimately help to deter mortgage fraud, from an agency standpoint, administrative appraisal reviews were now seen not only as a good business practice, but as an essential business need.

Why? Conducting an administrative appraisal review tests the value conclusion of the appraisal. The FSA must ensure that this value is as accurate as possible in order to minimize loss impact in the event of loan failure

For FSA and other federal agencies, regulatory requirements were established to enforce proper appraisal and lending practices and to help ensure that mortgage fraud would not occur.

WHY DO WE CONDUCT APPRAISAL REVIEWS (CONTINUED)

The two regulatory resources that are most important to appraisers are the FSA Handbook and the Uniform Standards of Professional Appraisal Practice (USPAP). These regulatory resources include the following requirements:

- Administrative appraisal reviews are performed as a due diligence function in the context of loan making and loan servicing decisions to ensure compliance with organizational requirements (Handbook 1-FLP, Par 143 B).
- An administrative appraisal review must verify that the appraisal complies with FSA requirements (Handbook 1-FLP, Par 143 B).
- Federal, state, and local agencies require compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).
- Appraisals for direct loans, and guaranteed loans (Handbook 2-FLP, Par 183 A), must comply with USPAP as well as applicable agency regulations (Handbook 1-FLP, Par 141 C).

INTRODUCTION TO APPRAISAL REVIEWS

Let's step back for a moment, and make sure you have a clear understanding of some of the key terms:

- Appraisal. An appraisal can be defined as:
  - The act or process of developing an opinion of value
  - An unbiased opinion of value of the nature, quality, value, or utility of an interest in, or aspect of, identified real estate
  - A report that provides a clear representation of an appraiser's facts, analyses, and conclusions

INTRODUCTION TO APPRAISAL REVIEWS (CONTINUED)

- Technical appraisal review. A technical appraiser review is completed by an appraiser to assess the quality and accuracy of the appraisal; it is detailed in nature. The appraiser completing this review must follow the guidance provided in USPAP Standard 3, and must certify in his or her technical review report. A technical appraisal review can:

  – Be completed as a desk review or field review.
  – Provide an opinion of value that differs from the report under review

- Administrative appraisal review. An administrative appraisal review can be completed by a variety of individuals (e.g., loan officers, lawyers) to assess if the appraisal meets a business need or to help make a business decision; it is brief in nature. The person completing this review:

  – Is not bound by USPAP Standard 3.

  – Must be able to understand the strengths and weaknesses of the report after his or her review.

  – Does not express a different opinion of value.

  An administrative appraisal review is a desk review

As you know, the focus of this training is on the administrative appraisal review and how this review is completed.

Note that a technical appraisal review is detailed in nature and allows the reviewer to provide a different opinion of value. Because of this, technical appraisal reviews are more costly and time-consuming than administrative appraisal reviews. This is a key difference between the two. When completing an administrative appraisal review, you should never request a technical review if your only concern is that you did not like the opinion of value.

WHO IS INVOLVED

In addition to the individual completing the actual review, there are several other people involved in, or affected by, an administrative appraisal review.

- Owner: person or people on record as the owner(s) of the property
- Applicant/borrower: person(s) who want to purchase the property and is/are applying for a loan to make this purchase; or person(s) requesting a servicing action in conjunction with a loan previously made
- Appraiser: person assigned to appraise the property and write an appraisal report
- Lender: institution that is processing and servicing the loan
- State office: appraisals that are rejected are reported to the state office

Note: All states are required to have an established appraisal licensing and review process for appraisals.

WHEN ADMINISTRATIVE APPRAISAL REVIEWS ARE CONDUCTED

The FSA conducts administrative appraisal reviews

- Within 7 workdays of receiving a contracted appraisal obtained for any direct loan purpose
- On 20 percent of appraisals for Preferred Lenders Program (PLP) and Certified Lenders Program (CLP) lenders
- On all appraisals for Standard Eligible Lenders (SEL) lenders
- On all third party appraisals

Administrative appraisal reviews are also conducted on chattel and real estate appraisals completed by FSA employees, as determined by the State Executive Director (SED).

WHEN ADMINISTRATIVE APPRAISAL REVIEWS ARE CONDUCTED (CONTINUED)

Note that PLP, CLP, and SEL lenders have the responsibility to establish a compliance review program, and all lenders should be completing their own administrative appraisal reviews.

The FSA has three programs that lenders use to make and service guaranteed loans. Lenders who have a positive track record with the FSA guarantee program may participate in the Preferred Lender Program (PLP) or the Certified Lender Program (CLP). Lenders who have little or no experience with FSA guaranteed loans may qualify as Standard Eligible Lenders (SEL).

PURPOSE AND GOALS OF ADMINISTRATIVE APPRAISAL REVIEWS

As we've already discussed, one of the ultimate goals of conducting administrative appraisal reviews is to help prevent mortgage fraud. By conducting these reviews, we ensure that FSA is in compliance with agency and regulatory requirements. We also establish a method of ensuring report acceptability for contract actions so that payment for services can be made.

But there are other goals that benefit the FSA, not only as an agency, but also as FSA employees. An administrative appraisal review:

- Ensures a consistent appraisal product
- Ensures quality work that we can rely on
- Allows us to solve problems at the lowest level
- Allows us to provide better customer service

Solving problems at the lowest level means being able to contact and collaborate with the FSA staff appraiser to correct problems identified in the administrative appraisal review. This results in fewer appraisals having to be redone, and/or having to escalate the appraisal to a costly and time-consuming technical review.

By completing comprehensive administrative reviews, solving problems at this level, and decreasing or eliminating the need for technical reviews, you are saving the FSA time and money

Now we'll take a moment to look at the tool you will use to conduct an administrative appraisal review.

OVERVIEW OF THE FSA-2165

While an appraiser's tools might include maps, tape measures, cameras, and calculators, a reviewer's main tool is the FSA-2165, Administrative Appraisal Review Form.

When you are asked to complete an administrative appraisal review, you do so by completing this form. Using a standard form for the entire agency provides a uniform way to complete an appraisal review and make an accurate determination of whether an appraisal is acceptable or unacceptable for FSA loan making or servicing

LAYOUT OF THE FSA-2165

Please refer to the illustration of the FSA-2165 on the following page.

As you can see, the FSA-2165 is a one-page form with 24 items for you to fill in or verify. For this training, we have broken up these 24 items into four main sections.

- Items 1 - 12
- Items 13 - 16
- Items 17 - 21
- Items 22 - 24

You can see the descriptions of these sections in the callouts shown on the form. We will go over each of these sections of the form in more detail as we continue through the course.

Before continuing, please take out the blank FSA-2165 from Appendix C (see page C-2); or if available, you can access and print out this form from your computer. You will be using the form for the rest of this course.

Sections of the FSA-2165, Administrative Appraisal Review Form

This form is available electronically.

FSA-2165 (02-18-09) **U.S DEPARTMENT OF AGRICULTURE** Farm Service Agency

ADMINISTRATIVE APPRAISAL REVIEW

1A. FSA County Office Name and Address *(Including Zip Code)*

1B. Telephone County *(Including Area Code):*

2. Name of Applicant/Borrower

3. Subject County

4. Number of Acres

5A. Name of Appraiser

5B. License Number

5C. State Issued

6. Type of Appraiser's License Classification: ☐ Certified General ☐ Certified Residential ☐ Licensed Residential ☐ Trainee ☐ None

7. Type of Appraisal Report : ☐ Self-Contained ☐ Summary ☐ Restricted

8. Effective Date of Appraisal

9. Date Appraisal Signed

10. Lenders Name *(If applicable*

11. Classification of Guaranteed Lender *(If Applicable)* ☐ SEL ☐ CLP ☐ PLP

12. Source of Report ☐ Guaranteed Lender ☐ BPA/Contract ☐ Third Party ☐ FSA Staff

NOTE: The purpose of this review is to meet the recommendations set out in the Uniform Standards of Professional Appraisal Practice. The Administrative Review may only be used by agency officials, duly trained in performing administrative reviews, and granted administrative appraisal review authority. It is intended that it be completed for Farm Loan Programs direct and guaranteed loans and servicing actions requiring a real estate appraisal. **ANY SERIOUS PROBLEMS, APPRAISAL ERRORS OR OMISSIONS WILL BE IMMEDIATLEY REPORTED TO THE STATE OFFICE AND THE LOAN OR SERVICING ACTION WILL NOT BE APPROVED. (REPORT PROBLEMS THAT WILL SIGNIFICANTLY IMPACT THE MARKET VALUE.)**

13. Introductory Information Complete: *(Property and legal description, client, intended user, purpose and intended use, rights appraised, scope of appraisal, highest and best use, alternative uses, easements.)*

14. General Information Included: *(Neighborhood analysis and general characteristics, market area and boundaries, natural resources, sewer and water systems, potential hazardous materials, environmental issues.)*

15. Comparable Sales: *(Sufficient number of recent sales described and analyzed to support the three approaches to value, maps, soils, topography, photos, construction, etc.)*

16. Subject Building or Improvements: *(Adequately described, photos attached.)* Building/Improvement Value: $ _____

17. Cost (Summation) Approach: $ _____ *(Land classes, land values supported by comparable sales, RCN supported, RCN less depreciation is improvement value, depreciation supported and properly computed, math correct.)*

18. Sales Comparison (Market Data) Approach: $ _____ *(Sales support adjustments for land, time, location, building and other adjustments, math correct, value within range from comparables.)*

19. Income (Capitalization) Approach: $ _____ *(Income and expenses supported, rates derived from sales, math correct.)*

20. Reconciliation of Value: Opinion of Market Value: $ _____ *(Did appraiser make comments as to which approach selected and why, exclusions explained.)*

21. Separate valuation of mineral rights identified in the appraisal *(For FSA direct loan purposes only.)* ☐ YES ☐ NO ☐ N/A

22. Is the Appraisal Acceptable for FSA's Intended Use? ☐ YES ☐ NO

23. If appraisal is not acceptable the appraisal should be rejected and reported to the State Office. General Comments: *(Overall quality, value determined on an informed basis.)*

24A. Signature of FSA Reviewing Official

24B. Title

24C. Date

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.

Items 1 through 12: "Header" or identification information

Items 13 through 16: More substantive, analytical information

Items 17 through 21: Substantive, analytical information on value approaches and determinations

Items 22 through 24: Reviewer's decisions, conclusions, and certification

CHECK YOUR UNDERSTANDING

Answer the following five questions. Refer to Appendix A for the correct answers.

Question 1

After the bank and saving and loan crisis of the 1980s, the FSA recognized that:

A. Insider abuse was occurring between two parties: lenders and borrowers.
B. Administrative appraisal reviews were an essential business need.
C. Technical appraisal reviews were the best way to deter mortgage fraud.

Question 2

Which of the following appraisal reviews is detailed in nature and can often be costly and time-consuming?

A. An applicant/borrower appraisal review.
B. An administrative appraisal review.
C. A technical appraisal review.

Question 3

The person conducting an administrative appraisal review:

A. Should not express a different opinion of value from the report under review, even if he or she disagrees with the value.
B. Should express an opinion of value that differs from the report under review, if he or she disagrees with the value.

Question 4

Who is responsible for establishing a compliance review program?

A. Administrative appraisal reviewers.
B. PLP, CLP, and SEL lenders.

Question 5

To conduct an administrative appraisal review, you must:

A. Complete a documented interview with the licensed appraiser.
B. Complete a site visit checklist for the subject land and building.
C. Complete an Administrative Appraisal Review Form.

KEY POINTS

The key points in this module include:

- An administrative appraisal review tests the value conclusion of an appraisal; the FSA must ensure that this value is as accurate as possible in order to minimize future loss in the event of loan failure.

- The two regulatory resources that are most important to FSA appraisers are the FSA Handbook and the USPAP.

- There are several differences between an administrative appraisal review and a technical appraisal review. For example, unlike a technical review, an administrative review:

  – Is not complex and is brief in nature.

  – Does not require following any USPAP guidance.

  – Does not provide a different opinion of value from the report under review.

  – Is a desk review and is not conducted in the field.

- In addition to the individual completing the actual review, there are several other people involved in, or affected by, an administrative appraisal review (e.g., owner, applicant/borrower, lender, state office).

- The FSA conducts administrative appraisal reviews within 7 workdays of receiving a contracted appraisal obtained for any direct loan purpose.

- The FSA conducts administrative appraisal reviews on 20 percent of appraisals for PLP and CLP lenders, all appraisals for SEL lenders, and all third party appraisals. Administrative appraisal reviews are also conducted on chattel and real estate appraisals completed by FSA employees, as determined by the SED.

KEY POINTS (CONTINUED)

- There are several goals of conducting administrative appraisal reviews, such as ensuring compliance with agency and regulatory requirements, establishing report acceptability for contract actions so that payment for services can be made, ensuring consistent and quality work, and providing better customer service. In addition, solving problems at this level, and decreasing or eliminating the need for technical reviews, saves the FSA time and money.

- Using the FSA-2165 provides a uniform way to complete an appraisal review and make an accurate determination of whether an appraisal is acceptable or unacceptable for FSA loan making or servicing.

Your Tool for Administrative Appraisal Reviews

INTRODUCTION

To conduct your review, you need to know how to use the FSA-2165, Administrative Appraisal Review Form, to:

- Assess if the appraiser has completed all of the required computations and analyses (there's no missing information), and done so correctly (no errors or mistakes were made)
- Determine if all of the information in the appraisal report supports the value determined
- Classify problems found in the appraisal report as minor or serious and identify the appropriate steps for resolution
- Deem the report acceptable or unacceptable

This is what we will cover in this module. We are going to look at each item on the FSA-2165 to determine what information is required, what you need to do to obtain that information, and how to complete the form.

Please refer to your blank FSA-2165 as we review the items.

We'll begin with items 1 – 12, often referred to as the "header" portion of the FSA-2165. The information required for items 1 – 12 is mandated by the Uniform Standards of Professional Appraisal Practice (USPAP) to be in the appraisal report and can typically be found on the cover and/or cover letter of an appraisal report. If it is not found there, it should be found somewhere within the body of the report.

Note: USPAP is recognized as the generally accepted appraisal standards in North America. Compliance with USPAP is required for appraisers in federally related transactions. Federal, state, and local agencies require compliance with USPAP. For administrative appraisal reviews, you are not bound by USPAP, only the appraisers are. Therefore, you are only required to be aware of the standards, but not to have expertise in USPAP.

ITEMS 1-4: FSA COUNTY OFFICE AND BORROWER INFORMATION

To complete items 1 – 4 on the FSA-2165, you will need to obtain the following information from the appraisal report:

- 1A, FSA County Office Name and Address; 1B, County Telephone. For this item, fill in the name and address of the FSA county office for which the appraisal report was prepared. For 1B, fill in the phone number for this FSA county office.
- 2, Name of Applicant/Borrower. For this item, fill in the name of the applicant or borrower, that is, the party in need of a loan or loan servicing.
- 3, Subject County. For this item, fill in the name of the county where the subject property is located (this may or may not be the same county as the FSA county office).
- 4, Number of Acres. For this item, fill in the number of acres for the subject property.

ITEMS 5 AND 6: APPRAISER INFORMATION

To complete items 5 and 6 on the FSA-2165, you will need to obtain information from the appraisal report regarding the appraiser who conducted the appraisal.

There are three areas that you must fill in for Item 5. For Item 5A, Name of Appraiser, fill in the name of the appraiser who conducted the appraisal and prepared the appraisal report. For 5B, License Number, and 5C, State Issued, fill in the appraiser's license number and the state in which the license was issued. (Some appraisers obtain a reciprocal license or temporary permits in order to conduct an appraisal in another state.)

Every state is required to have an established licensing and review process for federally related transactions.

- According to the Federal Institutions Reform Recovery and Enforcement Act (FIRREA) created in 1989, and the Office of Management and Budget (OMB) Circular A-129 issued in 1993, federal agencies are required to operate under the same rules as their appraisers.

ITEMS 5 AND 6: APPRAISER INFORMATION (CONTINUED)

- All states do not have to have the same license or review process, but all must have some type of licensing and review requirements.

- As FSA employees, you must be aware of and follow your state's established licensing and review process.

For item 6, you will check the box for the appraiser's license classification type:

- Certified General. Each state has specific requirements (e.g., classroom hours, college courses or degrees, work experience, appraisal experience) for a certified general appraiser. A certified general appraiser may appraise any type of property without regard to transaction value or complexity. The certified general credential is required for FSA appraisals. However, if an appraisal is received by someone who is not a certified general appraiser, the State appraiser should be contacted for further guidance.

- Certified Residential. Each state has specific requirements (e.g., classroom hours, college courses or degrees, work experience, appraisal experience) for a certified residential appraiser. These requirements are generally not as extensive as the requirements for a certified general appraiser. A certified residential appraiser may perform any:

  – Federally related nonresidential property appraisal/transaction value less than $250,000.

  – Federally related 1-4 family residential property appraisal without regard to transaction value or complexity.

  The difference between certified residential and licensed residential is that certified residential appraisers have no limit on the dollar amount for residential appraisals.

ITEMS 5 AND 6: APPRAISER INFORMATION (CONTINUED)

- Licensed Residential. Each state has specific requirements (e.g., classroom hours, college courses or degrees, work experience, appraisal experience) for a licensed residential appraiser. These requirements are generally not as extensive as the requirements for a certified general or certified residential appraiser. Most licensed residential appraisers are required to keep a log of the appraisals completed if they plan to upgrade to a higher level. These appraisers are not supervised unless the appraisal is for a Federal Institutions Reform Recovery and Enforcement Act (FIRREA) transaction, and the appraiser is working to upgrade to a certified general license. A licensed residential appraiser may perform any:

  – Federally related nonresidential property appraisal/transaction value less than $250,000.

  – Federally related 1-4 family residential property appraisal less than $1,000,000 if not complex.

  The difference between licensed residential and certified residential is that certified residential appraisers have no limit on the dollar amount for residential appraisals

- Trainee. A trainee is an individual who is completing the required training to become a licensed appraiser.

- None. This box is checked if the appraiser does not hold any of the other classification types. This would typically be an individual who is entry level, has no experience, and has not (yet) completed any training. This could also be an FSA Limited Authority Real Estate Appraiser, who is not required to obtain a license. These appraisers are limited to appraising only for FSA direct loans when the credit transaction is less than $100,000.

ITEMS 7-9: APPRAISAL REPORT INFORMATION

To complete items 7 – 9 on the FSA-2165, you will need to obtain information regarding the actual appraisal report that the appraiser prepared.

For item 7, you will check the box for the type of appraisal report that you are reviewing:

ITEMS 7-9: APPRAISAL REPORT INFORMATION (CONTINUED)

- Self-Contained. A self-contained appraisal report:
  - Is the most descriptive form of appraisal.
  - Describes all details of an appraisal.
  - Is not required by FSA, but may be submitted by the appraiser.

  The standard for a self-contained appraisal report is very high, and it is very unlikely anyone would prepare this kind of report for normal lending or servicing purposes. These reports are typically:

  - Used for demo reports to apply for membership to some appraisal organizations,
  - Prepared for expert witness testimony in court, or
  - Prepared for eminent domain and condemnation appraisals.

- Summary. Generally speaking, a summary appraisal report at minimum is required by FSA for direct and guaranteed loans and loan servicing and will:
  - Have the required information stated or summarized.
  - Be the most common type of report submitted for your review.
  - Many times, be a “form” report, or could be a narrative report.

  A summary appraisal report at a minimum will state the:

  - Identity of the client and any intended users, by name or type.
  - Intended use of the appraisal.
  - Real property interest (or real estate) involved, including the physical and economic characteristics relevant to the assignment.

ITEMS 7-9: APPRAISAL REPORT INFORMATION (CONTINUED)

- Type and definition of value with source.
- Effective date of appraisal and the date of report (generally two different dates, but many appraisers use the same date).
- Use of real estate as of the date of value and the use of the real estate reflected in the appraisal.
- All assumptions as well as hypothetical and limiting conditions.

Also, a summary appraisal report at a minimum will summarize:

- Information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions (including explanation/reasoning for excluding any valuation approach). The level of detailed information must be sufficient so as the intended user of the report is not misled or confused.
- The scope of the work.

• Restricted. A restricted appraisal report:

- Is limited in content (i.e., only includes statements for each category of an appraisal).
- Is generally for in house only use (e.g., for FSA direct loan servicing appraisals, such as small tracts when needed for partial release).
- Cannot be used for guaranteed loans.

If you receive a report that claims to be a restricted appraisal report, you should prepare FSA-2165, reject the report and forward to the state appraiser

ITEMS 7-9: APPRAISAL REPORT INFORMATION (CONTINUED)

For item 8, you will fill in the effective date of the appraisal (usually the date of the appraisal inspection).

For item 9, you will fill in the date the appraisal report was prepared/signed.

ITEMS 10-12: LENDER INFORMATION AND REPORT SOURCE

Items 10 – 12 complete the "header" section of the FSA-2165 and ask you to provide the lender name and classification, as well as the source of the report you are reviewing:

- 10, Lenders Name. If the administrative appraisal review is for an appraisal in conjunction with a guaranteed loan, enter the lender's name. Otherwise, leave this item blank.

- 11, Classification of Guaranteed Lender (SEL, CLP, or PLP). If the administrative appraisal review is for an appraisal in conjunction with a guaranteed loan, check the box for the lender's status with the FSA. Otherwise, leave this item blank. Lenders who have a positive track record with the FSA guarantee program may participate in the Preferred Lender Program (PLP) or the Certified Lender Program (CLP). Lenders who have little or no experience with FSA guaranteed loans may qualify as Standard Eligible Lenders (SEL).

- 12, Source of Report (Guaranteed Lender, BPA/Contract, Third Party, or FSA Staff). Check the box for the appropriate source of the appraisal report you are reviewing:

  – Guaranteed lender
  – Blanket purchase agreement (BPA)/contract
  – Third party
  – FSA staff

SAMPLE (ITEMS 1 - 12)

Let's take a look at a sample appraisal report to see where you would locate the information for items 1 – 12 of the FSA-2165. In this case, the information is included in the cover letter.

Sample Appraisal Report Cover Letter

July 25, 2009
[NOTE: item 8, Effective Date of Appraisal]

Treeville Appraisal Service
Bill Mathews
1234 Woodway Lane
Treeville, OK 11111
Phone: 555-111-1234
Fax: 555-111-4321

[NOTE: Items: 1A, FSA County Office Name and Address and 1B, County Telephone]
Oldland County FSA Office
4444 Main Street
Oldland, OK 11122
Attn: Joe Smith
555-111-4444

[NOTE: Paragraph contains items: 9, Date Appraisal Signed; 2, Name of Applicant/ Borrower; 10, Lenders Name; and 11, Classification of Guaranteed Lender]
RE: Appraisal conducted July 20, 2009 for David and Mary Johnson; prepared for Farmers Bank (PLP)

[NOTE: Paragraph contains items: 7, Type of Appraisal Report; 4, Number of Acres; and 3, Subject County.]
Pursuant to your request I have prepared a Summary Appraisal Report to estimate the "as is" cash market value of the fee simple interest in the subject property. The subject of this appraisal is an improved 25 acre parcel that is located 5 miles southwest of the main town of Leafyville in Oldland County.

This report has been prepared in accordance with and subject to the Uniform Standards of Professional Appraisal Practice. I have personally inspected the subject property, and confirmed and inspected all of the comparable sales. I have carefully reviewed the accompanying data and information documented within this report. The final valuation was based on the values found in the cost, sales comparison, and income approaches. The deed, subject photos, and area map are included in the addendum section of this report.

After careful consideration and after analysis, I conclude, subject to the contingent and limiting conditions set forth herein, that the subject property has an "as is" cash market value, as defined on July 20, 2009, of:

***** Six Hundred Fifty Thousand Dollars *****
($650,000)

Thank you for this opportunity to be of service. If you have any questions regarding this report, or if I can be of additional assistance, please feel free to call me.

Respectfully submitted, **[NOTE: Item 12, Source of Report (here it is third party)]**

William Mathews

[NOTE: Items: 5A and 5B, Name of Appraiser and License Number; 6, Type of Appraiser's License Classification]
Bill Mathews
State Certification Number: 1111-222222
Oklahoma Certified General Appraiser

SAMPLE (ITEMS 1-12) (CONTINUED)

Now let's take a look at how the appraisal reviewer used the information provided in this appraisal report to complete items 1 – 12 of the FSA-2165.

This form is available electronically.

FSA-2165 (02-18-09) **U.S DEPARTMENT OF AGRICULTURE** Farm Service Agency **ADMINISTRATIVE APPRAISAL REVIEW**	1A. FSA County Office Name and Address *(Including Zip Code)* 11 Maple Lane PO Box 1 Treeville, OK 11111 1B. Telephone County *(Including Area Code)*: 555/111-2222	
2. Name of Applicant/Borrower David and Mary Johnson	3. Subject County Oldland	4. Number of Acres 25
5A. Name of Appraiser Bill Mathews	5B. License Number 1111-222222	5C. State Issued OK
6. Type of Appraiser's License Classification: ☒ Certified General ☐ Certified Residential ☐ Licensed Residential ☐ Trainee ☐ None		
7. Type of Appraisal Report : ☐ Self-Contained ☒ Summary ☐ Restricted	8. Effective Date of Appraisal 07/20/2009	9. Date Appraisal Signed 07/25/2009

FSA-2165 PURPOSE STATEMENT: NOTE

At this point, you have completed the "header" portion of the FSA-2165. Looking at the FSA-2165 you have in front of you, you will see that the next item or box on the form is a NOTE.

The NOTE provides you with:

- The purpose of doing the review (reference to USPAP).
- Who should be doing the review.
- What to do about serious problems encountered when doing the review.

The NOTE also serves as an indicator to you that you will now begin the more substantive, analytical part of your appraisal review. For many of the remaining items, you are required to make decisions about what you see in the appraisal report and provide comments on these decisions.

CHECK YOUR UNDERSTANDING #1

Now let's take a minute to check your understanding on this first section of the form; that is, what information to look for on the appraisal report, and how to complete items 1 – 12 on the FSA-2165.

Please refer to the table below. Each piece of information from the appraisal report listed in the left column is used to complete one or more item on the FSA-2165. For each piece of information in the left column, select the appropriate Items the information corresponds to from the following four options. Record your selection the right column.

- Items 1 – 4
- Items 5 and 6
- Items 7 – 9
- Items 10 – 12

Refer to Appendix A for the correct answers.

Appraisal Report Information	FSA-2165 Items
The appraiser conducted the appraisal on June 10, and prepared the appraisal report on June 15.	
John Smith is interested in purchasing a 40-acre farm property in Anycounty, Virginia.	
The appraiser prepared the appraisal report for Farmers and Merchants Bank, classified as a Preferred Lender Program (PLP) lender.	
Cindy Jones is licensed as a Certified General appraiser in Virginia.	

PROGRESS CHECK

So far in this module we have covered the first section of the FSA-2165. You have learned about:

- Items 1 – 4: FSA County Office and Borrower Information
- Items 5 and 6: Appraiser Information
- Items 7 – 9: Appraisal Report Information
- Items 10 – 12: Lender Information and Report Source
- FSA-2165 Purpose Statement: Note

Let's move on to the next section of the FSA-2165.

ITEMS 13-16: REVIEW OF DESCRIPTIVE INFORMATION AND DOCUMENTATION

Items 13 – 16 of the FSA-2165 require you to review the appraisal report for information, supporting documentation, and other verifying data that the appraiser gathered and analyzed. These items will give you an indication of how comprehensive the appraiser's work was, and whether an adequate level of detail was provided in the report.

For each of these items, you will review appropriate portion(s) of the appraisal report and then note your findings. In your review, you will look for the level of detail provided in the report regarding:

- The property and client (item 13)
- The neighborhood, market, natural resources, and environmental issues (item 14)
- Comparable sales (item 15)
- Subject building or improvements (item 16

Let's take a look at each of these items, one at a time.

ITEM 13: INTRODUCTORY INFORMATION

For item 13, Introductory Information, you are looking for information in the appraisal report that provides foundation for the property; that is, the who, what, why, and where.

You are looking to see that the following information is thoroughly covered and described in the appraisal report:

ITEM 13: INTRODUCTORY INFORMATION (CONTINUED)

- Property and legal description. A detailed description of the property, including physical features (e.g., location, acreage, land, soil, drainage, buildings), legal address, and other legal characteristics (e.g., rights, privileges, easements, and rights-of-way belonging to or in any way pertaining to the subject property).

- Client. The organization performing the loan processing or servicing (e.g., bank/lending institution, FSA Farm Loan Program).

- Intended user. The organization performing the loan processing or servicing (e.g., bank/lending institution, FSA Farm Loan Program); usually the same as "client."

- Purpose and intended use. A description of why the appraisal is needed and/ or how the appraisal report is to be used (e.g., to develop an opinion of market value of the subject property for loan processing or servicing).

- Rights appraised. Fee simple is the predominate estate appraised for FSA. Fee simple is defined as the maximum possible estate one can possess in real property; the least limited in interest and the most complete and absolute ownership in land; of indefinite duration; freely transferable and inheritable. However, FSA also appraises for other types of estates; for example, a mineral estate, a fractional interest (i.e., partial ownership), a leasehold estate or leased fee estate (i.e., rented ground), or a future estate (i.e., life estate).

- Scope of appraisal. A description of what is expected of the appraiser in performing the appraisal inspection/ analysis and completing the appraisal report for the subject property; this is provided to and developed by the appraiser when he or she receives the appraisal assignment.

ITEM 13: INTRODUCTORY INFORMATION (CONTINUED)

- Highest and best use. Defined as the reasonably probable and legal use of vacant land, or an improved property, which is physically possible, appropriately supported, financial feasible, and that results in the highest value; the criteria the property must meet are: 1 – legal permissibility, 2 – physical possibility, 3 – financial feasibility, 4 – maximum profitability (also known as the HBU analysis).

- Alternative uses. Other ways the subject property could possibly be used; when determining highest and best use, the appraiser must consider other uses of the subject property as well as its current use.

- Easements. Easement is defined as a right held by one property owner to make use of the land of another for a limited purpose (e.g., utility rights, ingress and egress across the property); the appraiser must note if any easements or restrictions were found affecting the property and/or if any public improvements are planned.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 13 can be found on pages 4 – 17. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

Your comments for item 13 should explain your overall impression of the level of detail provided in the appraisal report (e.g., excellent, good, fair, inadequate).

Your comments should note any information that appears to be missing or incomplete. You should also comment on any typos or contradictory information that you see. Here are some examples of the types of comments that reviewers have made for item 13:

- Documented and adequate.

- Good. In depth. Fee simple with agricultural preservation. Appears complete.

ITEM 13: INTRODUCTORY INFORMATION (CONTINUED)

- Information is good with one exception: page 9 lists the applicants/borrowers as the owners; page 9 should show the owners as Tom and Rhonda Livingston.
- No issues noted.
- Adequate introductory information provided.
- Fine, but numbers in street address transposed; should be 1234 instead of 1243.

ITEM 14: GENERAL INFORMATION

For this item, you are looking for information in the appraisal report that:

- Paints a good picture of the area
- Answers the question: what is the real estate (RE) market area?

You are looking to see that the following information is thoroughly covered and described in the appraisal report:

- Neighborhood analysis and general characteristics. Any neighborhood information and characteristics such as location, topography and climate, zoning, schools and other educational facilities, access and transportation systems (e.g., interstates and highways, metro and bus systems, airports, ferries), utilities (e.g., electric, gas, telecommunication), community facilities, lifestyle (e.g., historical, cultural, recreational opportunities), and local and/or state government (e.g., taxes, funding, law enforcement).
- Market area and boundaries. Any information such as borders and boundaries; trends; demand for land in the area; what is considered a normal/typical market transaction; and any other data, considerations, and conditions affecting the market area.
- Natural resources. Any resources (i.e., natural and not man made) such as land, forests, mineral deposits, fossil fuels, water, or other resources that contribute to the productivity of the area.

ITEM 14: GENERAL INFORMATION (CONTINUED)

- Sewer and water systems. Any system bringing water to, or taking water away, from a property either for individual/household use or land irrigation and drainage (e.g., county water system, waste water treatment system).

- Potential hazardous materials. Any substance/material that is deemed (or may be potentially deemed) contaminating, detrimental, or harmful to the environment; examples include sanitary waste, asbestos, PCBs, radon, lead paint, underground storage tanks, air pollution, and others.

- Environmental issues. Conditions or substances that affect the environment; for example, potential hazardous materials.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 14 can be found on pages 7 – 15. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

Your comments for item 14 should explain your overall impression of the level of detail provided in the appraisal report (e.g., excellent, good, fair, inadequate).

Your comments should note any information that appears to be missing or incomplete. You should also comment on any typos or contradictory information that you see.

ITEM 15: COMPARABLE SALES

For this item, you are looking for information in the appraisal report that answers the questions:

- Are there sufficient and similar sales?
- Do the sales support the appraiser's conclusion?

You are looking to see that a sufficient number of recent sales have been described and analyzed to support the cost, sales, and income approaches to value (see items 17, 18, and 19). Such information may include comparisons based on such factors as:

ITEM 15: COMPARABLE SALES (CONTINUED)

- Value – refers to the different values of the comparable properties.

- Soils – refers to the soils data (e.g., type, make-up, class, capability, productivity) that are analyzed for the comparable properties

- Topography – defined as detailed mapping, charting, or description (by means of surveying) of the features in an area; refers to the comparison of these features for comparable properties.

- Construction – refers to the different types of construction (in terms of standards, structure, and cost) of the comparable properties.

Also, in your review of comparable sales, you will be looking for additional supporting documentation, including:

- Maps – referenced as additional supporting documentation when comparing different properties; maps can help to show their differences.

- Photos – referenced as additional supporting documentation when comparing different properties; photos can help to show their differences.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 15 can be found on pages 18 – 35. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

The comments you record for item 15 should explain:

- If the appraiser included appropriate information on a sufficient number of recent comparable sales.

- If the information provided on the comparable sales "makes sense" in supporting the appraiser's value opinion and conclusions

ITEM 16: SUBJECT BUILDING OR IMPROVEMENTS

If there are subject buildings or improvements, you are looking in the appraisal report for a thorough description, photos, and the value of the structures/improvements. The description should describe:

- Use – what the structure/improvement will be used for; how the structure/improvement will be used.
- Type – what kind of structure/improvement is being considered.
- Size – dimensions and/or proportions of the structure/improvement.
- Condition – what kind of shape the structure/improvement is in, and to what extent (e.g., new, solid, structurally sound, dilapidated, collapsing).

If the subject has proposed improvements, you are looking for information in the appraisal report that shows that the appraiser has:

- Examined plans, specs, and other documentation to identify the scope and character of proposed improvements;
- Indicated the probable time of completion; and
- Presented evidence supporting development costs, anticipate earnings, etc.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 16 can be found on pages 14 – 37. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

For Item 16, if there are subject buildings or improvements, you must note the value here, and in your comments, explain:

- Your overall impression of the level of detail provided (e.g., excellent, good, fair, inadequate).

ITEM 16: SUBJECT BUILDING OR IMPROVEMENTS (CONTINUED)

- Whether or not the report includes photos of the subject buildings or improvements to support the valuation.

If there are no subject buildings and/or no improvements, and no planned construction of improvements, record the value as "0" and note "Not Applicable" (N/A) in the comments section.

SAMPLE (ITEMS 13 - 16)

Now that you've seen how the information for items 13 – 16 was presented in the appraisal report, let's take a look at how the appraisal reviewer provided comments for these items on the FSA-2165. Review this completed section shown below.

13.	Introductory Information Complete: *(Property and legal description, client, intended user, purpose and intended use, rights appraised, scope of appraisal, highest and best use, alternative uses, easements.)* Documented and adequate.
14.	General Information Included: *(Neighborhood analysis and general characteristics, market area and boundaries, natural resources, sewer and water systems, potential hazardous materials, environmental issues.)* Items addressed and adequate.
15.	Comparable Sales: *(Sufficient number of recent sales described and analyzed to support the three approaches to value, maps, soils, topography, photos, construction, etc.)* Adequate number of recent sales, maps attached, spoils discussed, photos attached.
16.	Subject Building or Improvements: *(Adequately described, photos attached.)* Building/Improvement Value: $ 502,323 Description of improvements adequate, photos attached.

CHECK YOUR UNDERSTANDING #2

Now let's take a minute to check your understanding on this first section of the form; that is, what information to look for on the appraisal report, and how to complete items 13 – 16 on the FSA-2165.

Please refer to the table below. Each piece of information from the appraisal report listed in the left column is used to complete an item on the FSA-2165. For each piece of information in the left column, select the appropriate Item the information corresponds to from the following four options. Record your selection the right column.

- Item 13
- Item 14
- Item 15
- Item 16

Refer to Appendix A for the correct answers.

Appraisal Report Information	FSA-2165 Item
The Anycounty FSA is the intended user of this report; it will be used for FSA-FLP loan processing for Tom and Rhonda Livingston.	
Maps and photos were included for each of the recent sales addressed in the report.	
The boundaries of the property include Rolling River on the east, Lewis Lake on the south, County Highway on the north, Country Lane on the west.	
The subject has improvements including a house, shop, and a wood-framed utility shed. The criteria for the property as improved are outlined and addressed for the subject in this report.	
The first comparable is a 118 acre parcel of cropland located 3 miles east of the subject; the second is a 156 acre parcel of mixed crop and pasture located 10 miles northeast of the subject; and the third is a 184 acre improved farm located 5 miles north of the subject.	

Appraisal Report Information	FSA-2165 Item
No easements or restrictions were found affecting the property, and no public improvements are planned.	
The subject property appears to be free of environmentally hazardous waste contaminations. And, based on data from the water cooperative and sewer authority, the property complies with all environmental regulations.	

PROGRESS CHECK

So far in this module we have covered the first two sections of the FSA-2165, including a review of:

- Items 1 – 12: The "Header" Information (including the NOTE)
- Items 13 – 16: The Descriptive Information and Documentation

Let's take a look at the items on the FSA-2165 that cover the valuation approaches and value determinations.

ITEMS 17-21: REVIEW OF THE VALUE APPROACHES AND RECONCILIATION OF VALUE

For items 17 through 21, you must analyze the information and conclusions provided in the appraisal report. For these particular items, however, you are commenting on the appraiser's completion of three specific approaches to value (17 – 19), the appraiser's final value opinion (20), and a separate valuation of mineral rights (21):

- Item 17, Cost (Summation) Approach
- Item 18, Sales Comparison (Market Data) Approach
- Item 19, Income (Capitalization) Approach
- Item 20, Reconciliation of Value
- Item 21, Separate Valuation of Mineral Rights Identified in the Appraisal

Let's take a look at each of these items, one at a time

ITEM 17: COST (SUMMATION) APPROACH

The Cost (Summation) Approach is used to determine the value of the subject land (using comparable sales) and subject improvements (using "replacement cost new" minus accrued depreciation analysis). Replacement cost new (RCN) is used for computing subject and sale improvements. RCN:

- Is the most common cost used for these computations
- Constructs new buildings to modern standards with modern methods
- Should eliminate the concept of functional obsolescence/depreciation

The "reproduction cost" (i.e., cost of "reproducing" the subject in its current condition) is rarely used and usually includes functional obsolescence; it is difficult to obtain cost data for such sales

See Appendix C for a job aid on the Cost (Summation) Approach.

ITEM 17: COST (SUMMATION) APPROACH (CONTINUED)

For item 17, you are looking for information in the appraisal report that shows that:

- The data and analysis is adequate and sufficiently/ appropriately explained.
- This approach has a reconciliation explaining how the value was arrived at/determined.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 17 can be found on pages 36 and 37. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

In addition to noting the value, the comments you record for item 17 should explain:

- Whether or not the appraiser's cost approach calculations are adequate and accurate (e.g., land classes, land values supported by comparable sales, RCN supported, RCN less depreciation is improvement value, depreciation supported and properly computed, math correct).
- Any issues with the information presented in the report, as applicable.

ITEM 18: SALES COMPARISON (MARKET DATA) APPROACH

The Sales Comparison (Market Data) Approach is used to determine a value based on comparable sales derived from the market. See Appendix C for a job aid on the Sales Comparison (Market Data) Approach.

For item 18, you are looking for information in the appraisal report that shows that:

- The data and analysis are adequate and sufficiently/ appropriately explained.

ITEM 18: SALES COMPARISON (MARKET DATA) APPROACH (CONTINUED)

- This approach has a reconciliation explaining how the value was arrived at/determined.
- The sales support adjustments for land, time, location, building and other adjustments.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 18 can be found on pages 18 – 35. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

In addition to noting the value, the comments you record for item 18 should explain:

- Whether or not the appraiser's sales comparison was adequately conducted (e.g., sales support adjustments for land, time location, building and other adjustments; math correct; value within range from comparables).
- Any issues with the information presented in the report, as applicable.

ITEM 19: INCOME (CAPITALIZATION) APPROACH

The Income (Capitalization) Approach is used to determine a value that supports income and expenses (i.e., providing support for rents, expenses, and capitalization rates). See Appendix C for a job aid on the Income (Capitalization) Approach.

For item 19, you are looking for information in the appraisal report that shows that:

- The data and analysis are adequate and sufficiently/ appropriately explained.
- This approach has a reconciliation explaining how the value was arrived at/determined.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 19 can be found on pages 38 – 40. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

ITEM 19: INCOME (CAPITALIZATION) APPROACH (CONTINUED)

In addition to noting the value, the comments you record for item 19 should explain:

- Whether or not the appraiser's income analysis was adequately conducted (e.g., income and expenses supported; rates derived from sales; math correct).
- Any issues with the information presented in the report, as applicable.

ITEM 20: RECONCILIATION OF VALUE

The Reconciliation of Value is the appraiser's opinion of market value.

For item 20, you are looking for information in the appraisal report that shows that:

- The value for each approach (the three approaches in items 17 – 19) is explained, including how reliable each value is in comparison to the others.
- The final value opinion is provided, with explanation/ reasoning for how/why it was selected/determined.

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 20 can be found on pages 40 – 41. Take a look at these pages to see what this information looks like when it is provided in an appraisal report.

The comments you record for item 20 should explain:

- The final value opinion.
- The appraiser's explanation/reasoning as to which approach was selected and why.
- Whether or not the appraiser explained exclusions.

ITEM 21: VALUATION OF MINERAL RIGHTS

Mineral rights consist of the right to extract all minerals contained in or below the surface of a property. Minerals include, but are not limited to, several broad categories including sand and gravel; precious metals; and quarry types such as building stone, clay deposits, gem stones, and oil and gas. Essentially, the term minerals refers to any subterranean commodity that has or may have economic value. Specifically, minerals are solid, organic elements or elemental compounds with a definite atomic structure and chemical composition.

If the subject property has minerals or a known potential of minerals, the appraisal report must include a mineral rights analysis and valuation.

If the subject property has no known minerals, the appraisal report must include the statement from 1-FLP 142 B or similar language that indicates the value specified in the appraisal report includes mineral rights. The statement from 1-FLP 142 B reads as follows:

> "The precise value of mineral interests in existence, as well as the economic feasibility to extract minerals from the subject property, or any anticipated future annual production or income from the production of minerals is unknown to the appraiser. This appraisal is not an exhaustive study of the actual or potential mineral production, and is based on the best information available as of the effective date of the appraisal. The final opinion of value in the appraisal report includes mineral rights of the subject property."

Please refer to the sample appraisal report provided in Appendix B. In this report for David and Mary Johnson, information for Item 21 can be found on page 41. Take a look at this page to see what this information looks like when it is provided in an appraisal report.

You complete this item by checking Yes, No, or N/A.

SAMPLE (ITEMS 17-21)

Now that you've seen how the information for items 17 – 21 was presented in the appraisal report, let's take a look at how the appraisal reviewer provided comments for these items on the FSA-2165. Review this completed section shown below.

17.	Cost (Summation) Approach: $ 824,323 *(Land classes, land values supported by comparable sales, RCN supported, RCN less depreciation is improvement value, depreciation supported and properly computed, math correct.)* Land values supported, math correct, acres correct.
18.	Sales Comparison (Market Data) Approach: $ 800,000 *(Sales support adjustments for land, time, location, building and other adjustments, math correct, value within range from comparables.)* Comp data provided, adjustments explained, comps sufficient and similar, math correct, value reconciled.
19.	Income (Capitalization) Approach: $ 783,987 *(Income and expenses supported, rates derived from sales, math correct.)* Income and expense supported, math correct.
20.	Reconciliation of Value: Opinion of Market Value: $ 790,000 *(Did appraiser make comments as to which approach selected and why, exclusions explained.)* Approaches discussed and final value reconciled and reasonable.
21.	Separate valuation of mineral rights identified in the appraisal *(For FSA direct loan purposes only:)* ☐ **YES** ☒ **NO** ☐ **N/A**

CHECK YOUR UNDERSTANDING #3

Now let's take a minute to check your understanding on this section of the form; that is, what information to look for on the appraisal report, and how to complete items 17 – 21 on the FSA-2165.

Please refer to the table below. Each piece of information from the appraisal report listed in the left column is used to complete an item on the FSA-2165. For each piece of information in the left column, select the appropriate Item the information corresponds to from the following five options. Record your selection the right column.

- Item 17
- Item 18
- Item 19
- Item 20
- Item 21

Refer to Appendix A for the correct answers.

Appraisal Report Information	FSA-2165 Item
Since there are differences in the soil make-up between the comparable sales and the subject, the land use type was extracted from market data.	
The precise value of mineral interests . . . is unknown to the appraiser . . . The final opinion of value in the appraisal report includes mineral rights of the subject property.	
The rental rates for the county were collected from county committees, appraisers, auctioneers, Register of Deeds recorded leases, and other landowners.	

Appraisal Report Information	FSA-2165 Item
In the appraiser's opinion, all three value approaches were reasonable, equally reliable indicators of the as is market value of the subject. Therefore, the appraiser averaged all three values to arrive at the final valuation and rounded to the nearest $1000. After considering the current market conditions in the subject area, the appraiser provided a final value opinion for the as is (cash) market value of the subject.	
The replacement cost new (RCN) costs are broken down into a comparative unit or cost per square foot basis. Sources for this cost information are from the XYZ Valuation Service and local contractor estimates. The RCN data is used to isolate the various forms of depreciation, which can be prevalent in older farm improvements.	
The expenses used in the analysis include taxes, insurance, maintenance of improvements, fences, wells, irrigation systems, and a management fee.	

PROGRESS CHECK

So far in this module we have covered the first three sections of the FSA-2165, including a review of:

- Items 1 – 12: The “Header” Information (including the NOTE)
- Items 13 – 16: The Descriptive Information and Documentation
- Items 17 – 21: The Value Approaches and Reconciliation of Value

Let’s take a look at the last section of the FSA-2165.

ITEMS 22-24: YOUR CONCLUSIONS, DECISION, AND CERTIFICATION

Items 22 through 24 finish up your review:

- For Item 22: Is the Appraisal Acceptable for FSA's Intended Use? For this item, you will check Yes or No to answer the question.

- For Item 23: If the appraisal is not acceptable. . . . General Comments. If you answered No to Item 22, you will provide comments and explanation about why the appraisal is not acceptable. Note that if the appraisal is not acceptable, the appraisal should be rejected and reported to the state office.

- For Item 24: A, Signature of FSA Reviewing Official; B, Title; C, Date. You will sign the form (A) and include your title (B) and the date (C).

Review this completed section shown below.

22. Is the Appraisal Acceptable for FSA's Intended Use? ☒ YES ☐ NO		
23. If appraisal is not acceptable the appraisal should be rejected and reported to the State Office. General Comments: *(Overall quality, value determined on an informed basis.)*		
24A. Signature of FSA Reviewing Official Joe Smith	24B. Title Farm Loan Manager	24C. Date 01/05/2010

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not

CHECK YOUR UNDERSTANDING #4

For the last section of the FSA-2165, you are to provide your conclusions, decision, and certification for the appraisal report under review. What does this include?

Check all that apply, and then check Appendix A for the answers.

_____ Date the appraiser signed the appraisal report
_____ Signature of FSA Reviewing Official
_____ License number of FSA Reviewing Official
_____ Appraisal acceptable for FSA, yes or no
_____ Date the FSA Reviewing Official signed the form
_____ Title of FSA Reviewing Official
_____ Final opinion of market value
_____ General comments if appraisal unacceptable

KEY POINTS

You should now have a clear understanding about what each item on the FSA-2165 is, what information you need to look for in the appraisal report and where to locate this information, and finally, what you need to do to complete each item on the form.

The key points in this module include:

- The information required for items 1 – 12 is mandated by the USPAP to be in the appraisal report and can typically be found on the cover and/or cover letter of the report. If it is not found there, it should be found somewhere within the body of the report.

- The FSA-2165 Purpose Statement (i.e., the NOTE) provides you with the purpose of doing the review, who should be doing the review, and what to do about serious problems encountered when doing the review.

KEY POINTS (CONTINUED)

- Items 13 – 16 of the FSA-2165 require you to review the appraisal report for information, supporting documentation, and other verifying data that the appraiser gathered and analyzed. These items give you an indication of how comprehensive the appraiser's work was, and whether an adequate level of detail was provided in the report.

- For items 13 – 16, you review appropriate portion(s) of the appraisal report and then note your findings by recording comments on the form.

- For items 17 – 21, you analyze the information and conclusions provided in the appraisal report and provide comments on the appraiser's completion of three specific approaches to value (17 – 19), the appraiser's final value opinion (20), and a separate valuation of mineral rights (21).

- Items 22 – 24 finish up your review, as you provide your conclusions, decision, and certification.

Tying It All Together

INTRODUCTION

This module reviews and summarizes best practices for conducting administrative appraisal reviews. We'll also remind you of what is available in Resources for assistance when you are performing these reviews on your own.

The review topics we will cover in this module include:

- Key components of an appraisal report
- Knowing what to look for in the report
- Handling problems encountered
- Next steps when the review is complete
- Resources

KEY COMPONENTS OF AN APPRAISAL REPORT

As you know, you must locate specific information in the appraisal report that you are reviewing in order to complete the items on the FSA-2165 appropriately. Let's take a minute to review some of the key components of the appraisal report, where you can locate the required information.

Keep in mind that appraisal report information will not always be covered in the same item-by-item order as shown on the FSA-2165. You may have to jump around in the report a bit, skipping pages here and there to find what you need.

For the items of the FSA-2165 listed below, do a quick review of the components of the appraisal report that will provide you with the information you need.

- Items 1 - 12. The cover and/or cover letter generally include this basic, identifying information (e.g., who is the appraiser, applicant/borrower; acreage; type of appraisal; important dates).

- Item 13. The key components of the appraisal report you want to look for include:

  – Property and/or legal description
  – Client and/or intended user

KEY COMPONENTS OF AN APPRAISAL REPORT (CONTINUED)

- Purpose and/or intended use of the appraisal
- Rights appraised (property, mineral)
- Scope of appraisal
- Highest and best use (may include alternative uses)
- Easements

- Item 14. The key components of the appraisal report you want to look for include:

  - Area data (including neighborhood analysis and general characteristics)

  - Market area information (including boundaries and/or zoning)

  - Environmental information (including natural resources, utilities, and hazards)

- Item 15. Any components or sections of the appraisal report that cover "comparable sales" (or the "sales comparison approach" for item 18) will be used to complete this item of the form.

- Items 16 - 21. Appraisal reports are required to have a component or section that covers the valuation process that the appraiser used (e.g., cost approach, sales comparison approach, income approach). As applicable, this section(s) must include any information/data regarding subject buildings or improvements, must provide a building/improvement value, and must include photos.

Remember, you are responsible for completing items 22 through 24, providing your conclusions, decision, and certification. You do not need to locate any information in the appraisal report to complete these items.

The following page contains a sample Appraisal Report Table of Contents; briefly scan it this to see some of the key components we just identified.

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KNOWING WHAT TO LOOK FOR IN THE REPORT

You do not need to be an appraisal expert to complete an administrative appraisal review. However, you do need to be able to review an appraisal report and know when something may or may not be applicable; when something is missing; and when something just doesn't look right.

To give you a better understanding of what this means, let's take a look at some examples. The following items of the FSA-2165 provide some examples of when it would be appropriate to leave certain items on the form blank.

- Items 16 and 17. If the property does not have any structures (e.g., buildings) on the land, item 16 (Subject Buildings or Improvements) would not apply. Item 17 (Cost Approach) also would not apply, as this approach is used to determine the value of the subject land and subject improvements. In an example like this, items 16 and 17 would be left blank.

- Item 18. If the subject property is so unique that there are no other comparable sales, item 15 (Comparable Sales) and item 18 (Sales Comparison Approach) would not apply and would be left blank.

- Item 19. If the property highest and best use (considered as part of item 13) happened to be excess waste land for example, there would be no income potential. Therefore, item 19 (Income Approach) would not apply and would be left blank. When there is no income-producing potential for the subject, an income approach is not necessary.

If an appraiser states in the report that something was not completed (i.e., a particular analysis or approach was excluded), he or she must provide justification as to why. Given the appraisal property, you must then determine if the appraiser's justification is or is not reasonable.

If the appraiser did not do as required, and that error impacted the final conclusion of value or destroyed the credibility of the report, you need to ask that a technical review be conducted for a further determination as to the acceptability of the report.

KNOWING WHAT TO LOOK FOR IN THE REPORT (CONTINUED)

Note: Not all errors require that a technical review needs to be conducted. Minor errors are acceptable and should be noted on the FSA-2165.

HANDLING PROBLEMS ENCOUNTERED

As you are conducting your review, you may encounter problems based on what you see in the appraisal report.

A minor problem is typically one that is not a material defect and does not destroy the credibility of the report. Examples of a minor problem include:

- A mathematical or typographical error.
- An accidental omission.
- Transposing of figures anywhere in the report except the final conclusion of value (i.e., anywhere that does not impact the final value).
- Incorrectly completing one of the three value approaches, but no credibility is given to that approach in the final conclusion of value.

Minor problems can usually be handled in one of two ways.

- If the problem does not affect your acceptance of the appraisal for FSA's use (see item 22), make any necessary comments on the appropriate item(s) of the form.
- If the appraisal requires correction, call the appraiser and work together to resolve the problem so that the appraisal will ultimately be acceptable (see item 22); any necessary comments can be made on the appropriate item(s) of the form.

A major problem is one where a USPAP violation has occurred that destroys the credibility of the report. Examples of a major (or serious) problem include:

- Transposing of figures in the final conclusion of value. For example, there is a big difference between $1,500,000 and $1,050,000.

HANDLING PROBLEMS ENCOUNTERED (CONTINUED)

- Incorrectly completing or addressing one of the three value approaches, but a lot of weight (or the most credibility) is given to that approach in the final conclusion of value.

For example, let's assume that a report relied heavily on the income approach to value that concluded $1,500,000. Let's also assume that the cost approach concluded $1,000,000, and the sales comparison approach concluded $1,200,000. If the income approach was proven to be in error, the value could have been overstated by either $500,000 or $300,000, depending on which other approach was given the most support to the final value conclusion. This is a major problem. Intentionally including information in the report that is false or fraudulent. For example:

- If an appraiser uses comparable sales that do not exist.

- If an appraiser uses comparable sales at further distances or in other states to advocate support of a particular value, when other comparable sales are available in the immediate area that would not achieve a similar conclusion of value.

In either case, the appraiser may be ignoring neighborhood comparables to attempt to cause a value to be concluded that is not representative of the market (e.g., property flipping schemes).

These types of problems should be immediately reported to the state office and the loan or servicing action must not be approved.

Note: Disagreement with the final conclusion of value itself should never be a consideration of unacceptability. However, when the value cannot be adequately supported, then the report may be determined unacceptable.

NEXT STEPS WHEN THE REVIEW IS COMPLETE

Your next steps will depend somewhat on how you completed item 22:

- Yes, the appraisal is acceptable.
- No, the appraisal is not acceptable.

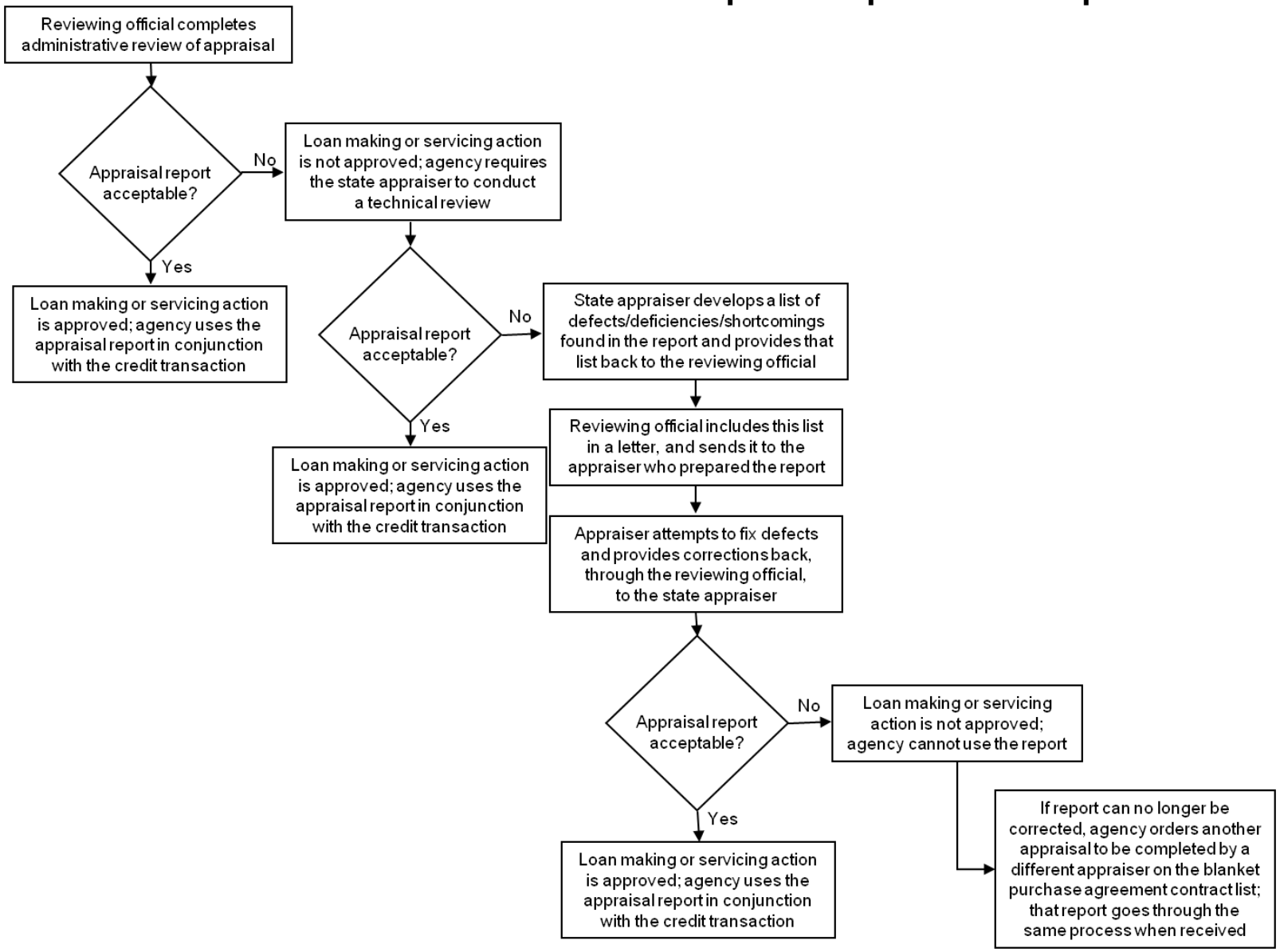
The following page contains a process flowchart of what happens when an appraisal report is determined acceptable or unacceptable. In addition to reviewing this flowchart, you may want to review the job aid "Common Appraisal Report Discrepancies," located in Appendix C.

When you have completed your administrative review, you must ensure copies of the FSA-2165 go to the appropriate offices and/or people. For all reviews (whether the report is acceptable or not), you will:

- File a copy in the operational file in the county office.
- Forward the original to the state appraiser.

For defective reports, you will also provide a copy of the appraisal report to the state appraiser.

Process Flowchart: Report Acceptable-Unacceptable



RESOURCES

Throughout this training, we have referenced various resources.

Keep in mind that these reference materials, job aids, and other helpful documents are available to you even after you have completed this training. You may want to keep them handy for assistance in conducting administrative appraisal reviews.

Specifically, you will find the following resources in Appendix C:

- FSA-2165, Administrative Appraisal Review Form (blank)
- Sample FSA-2165 (completed)
- FSA-2165, Administrative Appraisal Review Form, Job Aid
- Regulatory Resources
- Cost (Summation) Approach Job Aid
- Sales (Market Data) Comparison Approach Job Aid
- Income (Capitalization) Approach Job Aid
- Process Flowchart: Report Acceptable-Unacceptable
- Common Appraisal Report Discrepancies

KEY POINTS

The key points in this module include:

- There are key components of an appraisal report where you can locate the information required to complete the FSA-2165 appropriately.

- You don't need to be an appraisal expert to complete an administrative appraisal review. However, when reviewing an appraisal report, you need to know when something is missing; when something doesn't apply; and when something just doesn't look right.

- If an appraiser states that a particular analysis or approach was not completed, he or she must provide justification as to why. As the reviewer, you must then determine if the appraiser's justification is reasonable.

KEY POINTS (CONTINUED)

- If the appraiser did not do as required and the defect destroys the credibility of the report, a technical review must be conducted to determine the acceptability of the report.

- A minor problem is typically one that is not a material defect, does not destroy the credibility of the report, and can usually be handled relatively easily.

- A major problem is one where a USPAP violation has occurred that destroys the credibility of the report. These types of problems should be immediately reported to the state office and the loan or servicing action must not be approved.

- Once you have completed your review, you will have made a determination of whether the appraisal report is acceptable or unacceptable. Based on your determination, you must follow the appropriate next steps and ensure copies of the FSA-2165 go to the appropriate offices and/or people.

- Reference materials, job aids, and other helpful documents are available to you for conducting administrative appraisal reviews.

COURSE SUMMARY

This course introduced you to administrative appraisal reviews, explaining why and when we conduct them, who is involved, and the purpose and goals of these reviews.

We also spent some time looking at how these reviews are conducted and what is involved. We covered the key information you need to locate and review in an appraisal report, as well as how to complete each item on the FSA-2165, Administrative Appraisal Review Form.

The FSA-2165 is your tool for conducting an administrative appraisal review. You use this form, to:

COURSE SUMMARY (CONTINUED)

- Assess if the appraiser has correctly completed all of the required computations and analyses
- Determine if all of the information in the appraisal report supports the value determined
- Classify problems found in the appraisal report as minor or serious and identify the appropriate steps for resolution
- Deem the report acceptable or unacceptable

We also covered how to handle problems that you encounter when conducting a review, and what your next steps are when the review is complete.

Appendix A: Exercise Feedback

The Basics of Administrative Appraisal Review A-2

Your Tool for Administrative Appraisal Reviews.....A-4

The Basics of Administrative Appraisal Review

Page 10, Question 1

After the bank and saving and loan crisis of the 1980s, the FSA recognized that:

A. Insider abuse was occurring between two parties: lenders and borrowers.
B. Administrative appraisal reviews were an essential business need.
C. Technical appraisal reviews were the best way to deter mortgage fraud.

The correct answer is B. The failures in the 1980s helped the FSA recognize that administrative appraisal reviews were now an even more essential business need.

Page 10, Question 2

Which of the following appraisal reviews is detailed in nature and can often be costly and time-consuming?

A. An applicant/borrower appraisal review.
B. An administrative appraisal review.
C. A technical appraisal review.

The correct answer is C. The technical appraisal review is detailed in nature and can often be costly and time-consuming.

Page 10, Question 3

The person conducting an administrative appraisal review:

A. Should not express a different opinion of value from the report under review, even if he or she disagrees with the value.
B. Should express an opinion of value that differs from the report under review, if he or she disagrees with the value.

The correct answer is A. An administrative appraisal review is conducted only to assess if the appraisal meets a business need or to help make a business decision; not to express a different opinion of value.

Page 10, Question 4

Who is responsible for establishing a compliance review program?

A. Administrative appraisal reviewers.
B. PLP, CLP, and SEL lenders.

The correct answer is B. PLP, CLP, and SEL lenders are responsible for establishing a compliance review program.

Page 10, Question 5

To conduct an administrative appraisal review, you must:

A. Complete a documented interview with the licensed appraiser.
B. Complete a site visit checklist for the subject land and building.
C. Complete an Administrative Appraisal Review Form.

The correct answer is C. To conduct an administrative appraisal review, you must complete an Administrative Appraisal Review Form (the FSA-2165).

Your Tool for Administrative Appraisal Reviews

Page 22, Check Your Understanding #1

The correct corresponding FSA-2165 Items (answers) are shown in the right column below:

Appraisal Report Information	FSA-2165 Item
The appraiser conducted the appraisal on June 10, and prepared the appraisal report on June 15.	Items 7 – 9
John Smith is interested in purchasing a 40-acre farm property in Anycounty, Virginia.	Items 1 – 4
The appraiser prepared the appraisal report for Farmers and Merchants Bank, classified as a Preferred Lender Program (PLP) lender.	Items 10 – 12
Cindy Jones is licensed as a Certified General appraiser in Virginia.	Items 5 and 6

Pages 31 and 32, Check Your Understanding #2

The correct corresponding FSA-2165 Items (answers) are shown in the right column below:

Appraisal Report Information	FSA-2165 Item
The Anycounty FSA is the intended user of this report; it will be used for FSA-FLP loan processing for Tom and Rhonda Livingston.	Item 13
Maps and photos were included for each of the recent sales addressed in the report.	Item 15
The boundaries of the property include Rolling River on the east, Lewis Lake on the south, County Highway on the north, Country Lane on the west.	Item 14

Pages 31 and 32, Check Your Understanding #2 (continued)

Appraisal Report Information	FSA-2165 Item
The subject has improvements including a house, shop, and a wood-framed utility shed. The criteria for the property as improved are outlined and addressed for the subject in this report.	Item 16
The first comparable is a 118 acre parcel of cropland located 3 miles east of the subject; the second is a 156 acre parcel of mixed crop and pasture located 10 miles northeast of the subject; and the third is a 184 acre improved farm located 5 miles north of the subject.	Item 15
No easements or restrictions were found affecting the property, and no public improvements are planned.	Item 13
The subject property appears to be free of environmentally hazardous waste contaminations. And, based on data from the water cooperative and sewer authority, the property complies with all environmental regulations.	Item 14

Pages 39 and 40, Check Your Understanding #3

The correct corresponding FSA-2165 Items (answers) are shown in the right column below:

Appraisal Report Information	FSA-2165 Item
Since there are differences in the soil make-up between the comparable sales and the subject, the land use type was extracted from market data.	Item 18
The precise value of mineral interests . . . is unknown to the appraiser . . . The final opinion of value in the appraisal report includes mineral rights of the subject property.	Item 21

Pages 39 and 40, Check Your Understanding #3 (continued)

Appraisal Report Information	FSA-2165 Item
The rental rates for the county were collected from county committees, appraisers, auctioneers, Register of Deeds recorded leases, and other landowners.	Item 19
In the appraiser's opinion, all three value approaches were reasonable, equally reliable indicators of the as is market value of the subject. Therefore, the appraiser averaged all three values to arrive at the final valuation and rounded to the nearest $1000. After considering the current market conditions in the subject area, the appraiser provided a final value opinion for the as is (cash) market value of the subject.	Item 20
The replacement cost new (RCN) costs are broken down into a comparative unit or cost per square foot basis. Sources for this cost information are from the XYZ Valuation Service and local contractor estimates. The RCN data is used to isolate the various forms of depreciation, which can be prevalent in older farm improvements.	Item 17
The expenses used in the analysis include taxes, insurance, maintenance of improvements, fences, wells, irrigation systems, and a management fee.	Item 19

Page 42, Check Your Understanding #4

For the last section of the FSA-2165, you are to provide your conclusions, decision, and certification for the appraisal report under review. What does this include?

Check all that apply:

	Date the appraiser signed the appraisal report
X	Signature of FSA Reviewing Official
	License number of FSA Reviewing Official
X	Appraisal acceptable for FSA, yes or no
X	Date the FSA Reviewing Official signed the form
X	Title of FSA Reviewing Official
	Final opinion of market value
X	General comments if appraisal unacceptable

SUMMARY APPRAISAL REPORT

David and Mary Johnson Farm Partnership
11 Maple Lane
Treeville, OK 11111

Date of Value/Inspection Date: July 20, 2009

Date Report Prepared: July 25, 2009

Prepared by:
Bill Mathews
Certified General Appraiser

July 25, 2009

Treeville Appraisal Service
Bill Mathews
1234 Woodway Lane
Treeville, OK 11111
Phone: 555-111-1234
Fax: 555-111-4321

Oldland County FSA Office
4444 Main Street
Oldland, OK 11122
Attn: Joe Smith

Pursuant to your request I have prepared a Summary Appraisal Report to estimate the "as is" cash market value of the fee simple interest in the subject property. The subject is an improved 25 acre parcel located in Oldland County. The tract is located 5 miles southwest of the town of Leafyville in Oldland County.

This report has been prepared in accordance with and subject to the Uniform Standards of Professional Appraisal Practice. I have personally inspected the subject property, and confirmed and inspected all of the comparable sales. I have carefully reviewed the accompanying data and information documented within this report. The final valuation was based on the values found in the cost, sales comparison, and income approaches. The deed, subject photos, and area map are included in the addendum section of this report.

After careful consideration and after analysis, I conclude, subject to the contingent and limiting conditions set forth herein, that the subject property has an "as is" cash market value as defined as July 20, 2009 of:

***** Six Hundred Fifty Thousand Dollars *****
($650,000)

Thank you for this opportunity to be of service. If you have any questions regarding this report, or if I can be of additional assistance, please feel free to call me.

Respectfully submitted,

William Mathews

Bill Mathews
Oklahoma Certified General Appraiser
State Certification Number: 1111-222222

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Client and Intended User of Appraisal

The client and intended user of this appraisal is Farmers Bank and their assigns. Farmers Bank intends to use this appraisal for David and Mary Johnson.

Intended Use and Purpose of Appraisal

The purpose of this appraisal is to develop an opinion of market value in terms of cash or on financing terms equivalent to cash of the subject property in fee simple title unencumbered as of July 20, 2009, for a financial lending decision.

Property Rights

The property rights being appraised are fee simple. Fee simple is defined as:

> The maximum [possible estate one can possess in real property. A fee simple estate is the least limited interest and the most complete and absolute ownership in land; it is of indefinite duration, freely transferable, and inheritable.

Definition of Market Value

The definition of market value, as used in this report, was obtained from the Federal Deposit Insurance Corporation (FDIC) Law, Regulations, Related Acts Section 323.2(g) and is defined as:

> The most probably price, in terms of money, which a property should bring in a competitive and open market under all conditions requisite to a fair sale with the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by under stimulus. Implicit in this definition are the consummation of sale as of a specified date and the passing of title from seller to buyer under conditions whereby:
>
> 1. Buyer and seller are typically motivated.
> 2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
> 3. A reasonable time is allowed for exposure in the open market;
> 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
> 5. The price represents the normal consideration of the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Scope of the Appraisal

In the preparation of this appraisal, I personally visited the subject property and visually inspected the exterior and interior of the property. I walked the property and measured or obtained dimensions of existing improvements to determine square footage. I have contacted the assessor's office and the Clerk of the Circuit Court's office of the subject's jurisdiction to verify the legal description, current tax assessment, and date of assessment. I also checked for any transfers of the property during the previous 3-year period.

I have researched public records, the Multiple Listing Service, and the office files to obtain data; this data is assumed to be reliable and correct. I have interviewed property owners, developers, and brokers to obtain related data. Our office subscribes to the Marshall and Swift Cost Valuation Service (MSCVS) and uses this data, along with local builder information, to establish estimates used in the cost approach to value. Discussions with agricultural lenders and commodity brokers, along with actual income information, have been utilized to supply timely income approach data.

Flood hazard maps for the local areas are maintained in our office and updated as new information becomes available. Accumulated area data and files on previous appraisals from this office are also used whenever possible.

This scope is not limited to the above contributors, but does cover the large majority of information used in the normal course of business by this office. I prepared this report using computer-assisted computations. It has been reviewed for accuracy by this office to the best of our ability. We reserve the right to correct any mathematical or typographical errors that may have been overlooked in our review process.

As the appraiser, I have analyzed the data from appropriate sources to gain an understanding of the economic climate and the environment and market forces which affect real estate values – including that of the subject. I have applied the collected information to the appropriate valuation approach to develop the opinion of market value for the subject property.

Assumptions and Limiting Conditions

The term "appraiser," as referenced herein, refers to the appraiser preparing the report, the appraiser's employer for purposes of this appraisal, and other employees of the employer and/or appraiser.

1. LIMIT OF LIABILITY: The liability of the appraiser is limited to the client and to the fee collected (if any) with no liability or obligation to any other third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser assumes no responsibility for any costs incurred to discover or correct deficiencies of any nature present in the property.

2. CONFIDENTIALITY: This appraisal is to be used only in its entirety; no part is to be used without the entire report. All conclusions and opinions concerning the analysis set forth in the report were prepared by the specific appraiser(s) whose signature(s) appear(s) on the appraisal report, unless indicated otherwise in the report. No change in the report shall be made by anyone other than this appraiser. The appraiser shall have no responsibility if any such unauthorized change is made.

3. INCLUSIONS: Unless otherwise stated in the report, the valuation in this report is based on surface rights free and clear of all liens and encumbrances (fee simple).

4. EXCLUSIONS: Unless specifically cited, value does not reflect mineral, gas, oil, or similar rights that may exist in a whole or in part unless specifically noted in the report. Furnishings, equipment, personal property, and business operations, except as indicated in the report, have been disregarded with only the real estate and fixtures being considered in the value estimate.

5. LEAL MATTERS: The appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the appraiser render any opinion as to the title, which is assumed to be good and marketable.

6. LEGAL DESCRIPTION AND EXHIBITS: The legal description of the property as provide by the client is assumed to be accurate. Any plats, maps, or sketches in the report show approximate dimensions and are included to assist the reader in visualizing the property. Such items may not be to scale and are not surveys unless provided by a registered surveyor.

Assumptions and Limiting Conditions (continued)

7. MANAGEMENT OF THE PROPERTY: The property is appraised as though under prudent and competent ownership and management. Further, the appraisal is based on the premise that there is full compliance with all applicable federal, state, and local statutes and/or environmental regulations, unless otherwise stated in the report.

8. HAZARDOUS OR TOXIC MATERIALS: The appraiser is not qualified to verify or detect the presence of hazardous substances by visual inspection or otherwise, nor qualified to determine the effect, if any, of known or unknown substances present. Unless otherwise stated in this report or an attachment hereto, the final value conclusion is based on the subject property being free of hazardous waster contaminations, and it is specifically assumed that present subsequent ownership will exercise due diligence to ensure that the property does not become otherwise contaminated.

9. HIDDEN COMPONENTS: The appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, excessive topography, sinkholes, or structures, which would render it more or less valuable. The appraiser assumes no responsibility for such conditions or for engineering, which might be required to discover such factors.

10. INFORMATION USED: Information, estimates, and options furnished to the appraiser, and contained in this report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for the accuracy of such items is assumed by the appraiser. It is suggested that the client independently verify the information provided prior to entering into transaction that would significantly impact the property or would require a substantial commitment of funds. Unless otherwise noted, no one provided significant professional assistance to the undersigned.

11. COURT TESTIMONY: The appraiser is note required to give testimony or appear in court because of having made this appraisal with reference to the property in question, unless arrangements have been made previously therefore.

12. COMPONENT VALUES: The distribution of the total valuation in this report between land and improvements applies only under the existing program utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if used.

Assumptions and Limiting Conditions (continued)

13. TIME EFFECT ON VALUES: The market value estimated, the cost estimates, and other estimates used in arriving at the final estimate of value are as of the effective date of the appraisal. Because the markets upon which these estimates and conclusions are based are dynamic in nature, they are subject tot change over time. Further, the appraisal report and value estimates are subject to change if physical, legal, financial, and other conditions differ from conditions on the appraisal date.

14. CHANGES AND MODIFICATIONS: The appraiser reserves the right to alter statements, analysis conclusions, or value estimates in the appraisal if facts become known that are pertinent to he appraisal process that were unknown to the appraiser at the time of report preparation.

15. DISTRIBUTION AND USE OF REPORT: Neither all nor any part of the contents of this report, or copy thereof shall be distributed without the prior written consent of the appraiser. Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use. Neither all nor any part of the appraisal report shall be conveyed to the general public through advertising, public relations, news, sales, or other media, without the written consent and approval of the appraiser. The physical report remains the property of the appraiser for the use of the client.

16. FEE: The fee (if any) for this appraisal or study is for the service rendered and not for the physical report or the time spent preparing the physical report itself. The fee for provision of this report is for analytical services provide by the appraiser and has no relation to the final values report.

17. ACCEPTANCE OF, AND/OR USE OF, THE APPRAISAL REPORT BY THE CLIENT OR ANY THIRD PARTY CONSTITUTES ACCEPTANCE OF THE ABOVE CONDITIONS.

OTHER CONDITIONS: Subject mobile home was not included in this valuation.

Area, Regional, and Neighborhood Analysis

LOCATION AND ACCESS

Oldland County is located in the southeastern part of Oklahoma. It borders Water River on the south, Liquid Lake on the east, Anyland County on the north, and Ourland County on the west. U.S. Highway 44 runs east/west and U.S. Highway 75 runs north/ south through the county to provide the primary access through the county. These highways and other county paved and gravel roads provide good access throughout the county.

LABOR MARKET AREA

Gender distribution

Oldland:	48.5% male	51.5% female
Surrounding labor area:	48.5% male	51.5% female

Ethnic distribution

Oldland:	92.2% male	7.8% female
Surrounding labor area:	88.0% male	12.0% female

Civilian Labor Force (2005)

Oldland:.....61,574
Surrounding labor area: 198,707
Total: 260,281

Labor Force Participation (2000 Census)

Oldland:.....64.5%
Surrounding labor area: 63.1%

Unemployment

Unemployment rate (May 2006)

Oldland:.....2.52%
Surrounding labor area: 2.69%
Statewide: 2.86%

Unemployed (2005)

Oldland:.....1,841
Surrounding labor area: 6,326
Total: 8,167

Commuting Patterns (2000 Census)

Live and work in Oldland	46,368	73%
Total In-Commuters	11,175	17.6%
Total Out-Commuters	6,015	9.5%
Net In-Commuters	5,160	

Additional Labor Resources

High school graduates not continuing (2004-2005):	325
Two-year college graduates (Spring 2005):	482
Other college and university graduates (2003-2004):	4,590
Total:	5,397

Educational Attainment

Percentage of Oldland 2001-2002 ninth-graders graduating in 2004-2005:	76.6%
Percentage of Oldland population age 25+ who are high school graduates:	73.6%
Percentage of Oldland population age 25+ who have earned a bachelor's degree or higher:	21.4%

Employment Sector* (4th quarter 2005)

Natural resources	756	1.3%
Construction	4,342	7.4%
Trade	10,172	17.4%
Transportation utilities	2,325	4.0%
Manufacturing	11,549	19.7%
Information	1,319	2.3%
Financial	2,021	3.4%
Services	17,149	29.3%
Government	8,978	15.3%
Total	**58,611**	**100%**

*** By XYZ Establishment**

Employment by Occupation* (4th quarter 2005)

Construction, extraction, and maintenance	6,226	10.9%
Farming, fishing, and forestry	528	0.9%
Managerial, professional, and related	13,122	23.0%
Production, transportation, and material moving	12,474	21.8%
Sales and office	14,757	25.8%
Service	10,024	17.5%
Total	**57,131**	**100%**

*** By XYZ Establishment**

Union Activity (January 2004 – December 2005)

No union activity

Estimated Earnings (November 2004)

Occupation	Med. Wage	Mean Wage	Med. Salary	Mean Salary
Laborers and freight, stock and material movers, hand	$9.48	$10.00	$19,727	$20,800
Industrial truck and tractor operators	$13.25	$13.29	$27,556	$27,653
Truck drivers, light or delivery services	$10.10	$10.72	$21,009	$22,304
Truck drivers, heavy and tractor-trailer	$15.86	$16,34	$32,990	$33,982
Team assemblers	$14.60	$15.10	$30,378	$31,416
1st-line supervisors/managers, production and operating	$20.70	$22.05	$43,060	$45,860
Maintenance and repair workers, general	$14.89	$15.22	$30,972	$31,662
Carpenters	$15.13	$15.61	$31,460	$32,464
Office clerks, general	$10.07	$10.38	$20,941	$21,596
Secretaries, except legal, medical, and executive	$11.88	$12.24	$24,711	$25,461
Stock clerks and order fillers	$10.10	$11.54	$21,014	$24,004
Customer service representatives	$11.90	$12.16	$24,752	$25,285
Bookkeeping, accounting, and auditing clerks	$13.33	$13.74	$27,736	$28,571
1st-line supervisors/managers, office and admin support	$16.58	$18.79	$34,487	$39,090
Sales reps, wholesale & manufctrng, ex tech & scientific	$12.48	$16.86	$25,956	$35,065
Nursing aides, orderlies, and attendants	$9.74	$9.73	$20,262	$20,243
Registered nurses	$23.99	$24.48	$49,906	$50,914
Elementary school teachers, except special education	$21.96	$22.24	$45,667	$46,258
General and operations managers	$33.34	$38.74	$69,349	$80,580

Per Capita Personal Income (2003)

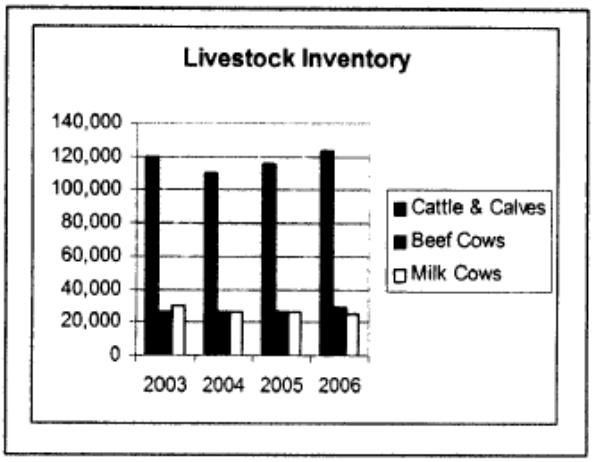
$24,240

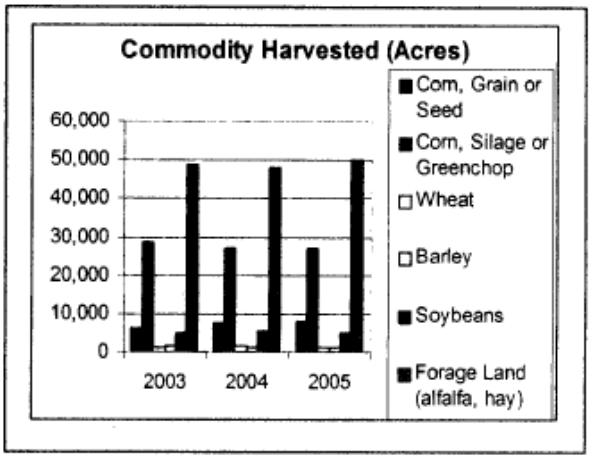
AGRICULTURE

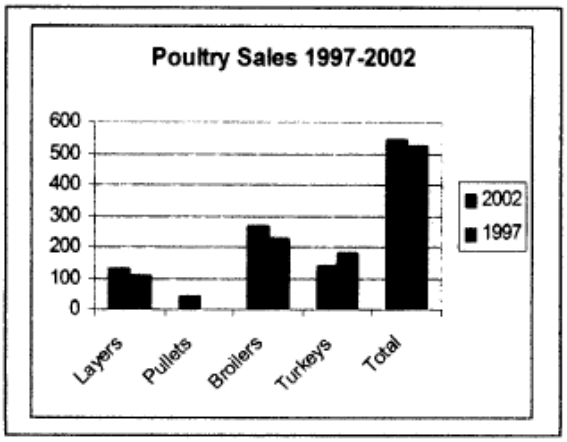
Agriculture has long been one of Oldland County's major industries. In the 2002 Census of Agriculture, Oldland County was ranked second in the state for total value of agricultural products sold. In 2002, there were approximately 2,011 farms in the county, totaling 239,102 acres, with the average farm size being 119 acres. The average estimated market value of land and buildings was $498,534. The average estimated market value of land per acre was $4,043.

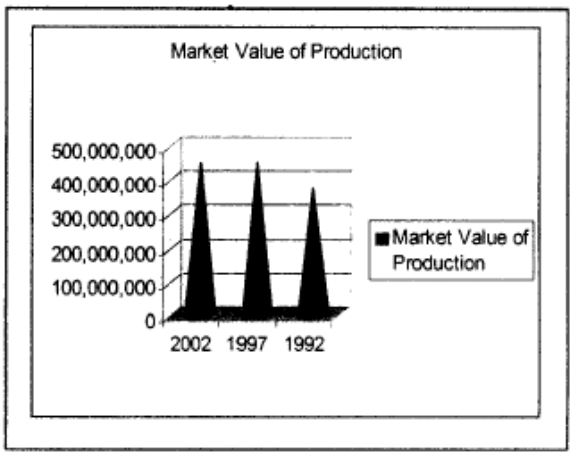
In 2002, the approximate market value of agricultural products sold by Oldland County farmers was $446,663,000. Livestock, poultry, and their products accounted for over $433 million which accounted for approximately 96% of the total market value of the products sold. The other major product group was crops. This accounted for $13.3 million of the total.

AGRICULTURE (CONTINUED)









EDUCATION

Public School Enrollment

LEVEL	NUMBER	FALL 2005 ENROLLMENT
Elementary	17	7,946
Middle	5	3,527
High school	4	4,797

Student Teacher Ratio (2004-2005)

Elementary ..... 12.4 : 1
Secondary ..... 9.9 : 1

Percentage of 2001-2002 ninth grade membership graduating 2004-2005 ..... 76.6%
Percentage of high school graduates continuing education 2004-2005
(including military) 66.9%

Per Pupil Expenditure (FY 2005)

$8,818.41

GOVERNMENTAL CONSIDERATIONS

Taxes and Trends

Property taxes have been stable in the county with no major projects planned for schools or community facilities. Recent increases in land values have forced the assessment values up and consequently taxes have also gone up slightly in recent years. The county is planning a new court house and law enforcement center expansion which is expected to go to a bonding vote in the near future.

Zoning

Oldland County is zoned and all building in the rural areas of the county must be approved by the zoning board. The City of Oldland is zoned and permits are required for all construction within the city limits from the Planning Office in Oldland.

Market Area Trends

The subject property is located in the northeaster section of the County of Oldland. The area consists of agricultural farms/lands and single-family homes. The subject property is compatible with the surrounding area.

The local real estate market continues to be stable, with balanced sales to listings with level land values. The local economy and employment opportunities are stable with slightly rising unemployment. The close proximity to business routes lends easy access to schools, business, employment, and recreation in the town of Leafyville and surrounding Oldland county.

Site Data

The subject property is irregular in shape, consisting of 25 acres, with approximately 20 acres of pasture and the balance being the home site and building waste. The subject has a small amount of frontage on Farmer Road. Subject topography is described as moderately rolling and draining appears to be adequate. The subject property is served by a drilled well, sanitary septic systems, and public electricity. Wells, sprints, and septic fields are typical for rural home sand farms in the market area.

Improvement Data

Subject is a farm operation with a dwelling, three operating poultry units, litter storage building, and other farm-related outbuildings. The primary home, built in 1988, is approximately 2,112 square feet that is one and one-half stories. Exterior finish is vinyl siding and a shingle roof. Interior includes three bedrooms, two full baths and one half bath, kitchen, dining room, office/den, and living room. Interior finish includes laminate wood and carpet floors, with gypsum board walls and ceilings that are painted. Heat is provided by gas and heat pump and the home has central air conditioning. Water is provided by a drilled well and serviced by a septic system. The dwelling is in good condition. The two poultry units are 31 x 350 and have metal siding, metal roof, and dirt floor. Both units have feed lines and drinkers; these units are in average condition. The litter storage unit is 5,775 square feet with wood frame knee walls, metal siding, metal roof, and a dirt floor; this improvement is in average condition. A stationary generator and a small equipment storage building have been given lump sum values that have been market derived fro their contributory value to the subject; both of these improvements are in fair condition.

Zoning and Other Restrictions

The subject is zoned A-1, prime agriculture, by the County of Oldland, Oklahoma. Representative uses permitted under this classification are as follows:

- Agricultural
- Animal husbandry
- Silviculture
- Orchards
- Nurseries
- Aquaculture
- Flood control or watershed structures
- Greenhouse
- Intensive poultry operations
- Hog operations
- Fish hatchery
- Hunting or fishing club
- Domestic animals
- Public utilities
- Single-family residences
- Water filling stations
- Storage of agricultural products
- Residential human care facility
- Special uses by permit

Flood Hazard Area

To assist the citizens in a potential or actual emergency, the U.S. federal government has created the Federal Emergency Management Agency (FEMA). Among the many responsibilities of FEMA, one is to determine the high hazard areas where the probability of periodic flooding is high. Through the National Flood Insurance Program, FEMA has compiled flood insurance rate maps, which rate areas according to the probability of period flooding. Areas where potential flooding occurs within a 100-year timeframe are considered to be in a flood hazard area. FEMA's flood hazard map indicates that the subject property is not located in a flood hazard area.

Environmental Hazards

The value estimated is based on the assumption that the property is not negatively affected by the existence of hazardous substances or detrimental environmental conditions unless otherwise stated in this report. The appraiser is not an expert in the identification of hazardous substances or detrimental environmental conditions. The appraiser's routine inspection of and inquiries about the subject property did not develop any information that indicated any apparent, significant hazardous substances or detrimental environmental conditions, which would affect the property negatively unless otherwise stated in this report. It is possible that Phase I or II test and inspections made by a qualified hazardous substance and environmental expert would reveal the existence of hazardous substances or detrimental environmental conditions on or around the property that would negatively affect its value.

Highest and Best Use

Highest and best use (HBU) is the basic foundation for the valuation process. It is typically defined as the reasonably probable and legal use, which, at the time of the appraisal, is the most profitable and likely use for the property. The criteria that the HBU of the property must meet are: 1-legal permissibility, 2-physical possibility, 3-financial feasibility, 4-maximum profitability or maximally productive.

- **Physically possible.** The site must possess adequate size, shape, soil, and other physical conditions to support potential use.

- **Legally permissible.** The potential use of the property must conform to all private, local, and state zoning and use restrictions for the site.

- **Financially feasible.** The potential use must be capable of providing a net return to the property owner.

- **Maximally productive.** Of those physically possible, legally permissible, and financially feasible uses, the highest and best use for a property is that use which provides the greatest net return to the property owner over a given period.

Highest and Best Use (continued)

These criteria should usually be considered sequentially; it makes no difference that a use is financially feasible if it cannot be physically constructed on the site or if it is not legally permitted.

Each alternative land use has been analyzed according to these four criteria. The land use plan recommended as a result of this analysis represents the HBU for the land.

The subject property is currently utilized for poultry/general farming.

Analysis of the Subject Property as if Vacant. In an evaluation of the HBU of land as if vacant, structural improvements are eliminated from consideration. All factors regarding neighborhood trends and site characteristics are given full weight in the analysis. With this framework in mind, a property owner's most reasonable approach to the use of the land must be evaluated.

After analyzing local zoning codes and market area trends, it is my opinion that the HBU for the subject, as if vacant, as of the date of value is agriculture.

Analysis of the Subject Property as Improved. In an evaluation of the HBU of land as improved, all factors regarding structural improvements, market area trends, and site characteristics are given full weight in the analysis. With this framework in mind, a property owner's most reasonable approach to the use of the land must be evaluated.

Further analyzing the above data, it is my opinion that the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value. Therefore, the HBU of the subject property as improved as of the date of value is poultry/general agriculture, which is the HBU as reflected in this appraisal.

Delineation of Title for the Subject Property

The subject property is identified as parcel 11-(Z)-A112Y on the County of Oldland tax maps. It was acquired by David and Mary Johnson from Henry and Susan Doe by deed dated August 12, 2003, as recorded in the Clerk's Office of Oldland County in Deed Book 1111 on page 100. No other transfers were recorded for the subject property for 4 years prior to the effective date of the appraisal. (See addendum of this report for a copy of the subject property deed.)

Title Report

I have not been furnished a copy of the title report on the subject property, and I cannot warrant missing data that a title search would typically reveal. During the typical appraisal process, I have found no apparent restrictions on the development and use of the property which would have a material impact on its value.

Legal Description

All that certain tract or parcel of land, containing 25 acres, more or less, together with all the improvements thereon, and all rights, privileges, appurtenances, easements, and rights-of-way thereunto belonging or in anyway pertaining, situate on the west side of Woodland Road in Oldland County, Oklahoma.

Sale, Option, or Listing Agreement

The owner reports that the subject property is not under contract agreement or option and is not offered for sale on the open market.

Real Estate Tax Assessment Data

The real estate assessor's office for the County of Old land was consulted to confirm the present and historical tax structure for the county. The county assesses property on a yearly basis at a ratio of 100% of assessed value. The current 2009 tax rate is $.57 per $100 of assessed value.

The current assessment for the subject is $203,600 for the site and $327,800 for the improvements for a total assessment of $531,400. The subject is in land use and is taxed at $88,220. This equates to a tax liability of $2,412.91 for 2009.

Valuation Process

The valuation process develops a supportable estimate of market value of the property appraised. It involves collecting market evidence to support an analysis of value trends, the reactions of buyers and sellers in the marketplace, and a proper interpretation of the facts. Traditionally, three approaches to value are used: the cost, sales comparison, and income.

All three approaches are based on the principal of substitution which states that no reasonable person would be willing to pay more for a property than the current cost of buying the site and constructing a similar building having similar utility. In theory, all three approaches are designed to provide an estimate of market value as of a specific date, and all three are, in essence, market data comparative approaches. When the data is correctly analyzed and processed, the three approaches will provide value indications within a narrow range, with diversions resulting only for the lack of mathematical precision inherent in the appraisal process. One or more of these approaches is used in all estimations of value, depending on the type of property, the function of the appraisal, and the quality and quantity of data available for analysis.

Sales Comparison Approach

In the sales comparison approach, the appraiser's objective is to find the probable market value of the subject property by interpreting data on sales of similar properties. Each comparable sale is compared with the subject property. Typically, physical characteristics, terms of financing, and conditions of sale are included in the elements of comparison. Adjustments are made to the comparable sales prices to arrive at an indication of what he subject property would sell for if offered in the market. Herein, I have conducted a thorough investigation o f the subject's immediate and general neighborhood to identify recent sales of property with reasonably similar characteristics and utility.

Additionally, I have prepared a discrete valuation of the site, as if vacant. By comparison of the site to several historical transactions involving land intended for similar use to that of the subject, I have made an estimation of the value of the subject land as a separate entity. I would direct your attention to the following land and subject value comparison charts and schedule of values, as well as the photographs of comparable sales. For additional supporting documentation, I have also included maps of the comparable sale locations in the addendum section of this report.

COMPARABLE SALE #1

County: Oldland
Property type: vacant
Address: Water Mill Lane, Mistytown, Oklahoma
Acreage: 39.677
Tax map: 62 (A) 111
Zoning: general agriculture
Sale price: $337,254
Date of sale: February 5, 2008
Recording reference: Deed Book 3259, Page 371
Grantor: Jane Doe
Grantee: John and Jill Poe
Data verified by: public records

Improvements: **None**

Site Improvements (list):

Land:

Use	Acres	Value Per Acre	Total Value
Pasture	29		
Woods	10.677		
Total		$8,500	$337,254

Remarks:

COMPARABLE SALE #2

County: Oldland
Property type: land
Address: Hikers Road, Leafyville, Oklahoma
Acreage: 30.712
Tax map: 50 (A) 119 and 122
Zoning: general agriculture
Sale price: $250,000
Date of sale: August 12, 2007
Recording reference: Deed Book 2252, Page 344
Grantor: Koe Family Revocable Trust
Grantee: John H. and Eileen T. Hook
Data verified by: deed/public record

Improvements: **None**

Site Improvements (list):

Land:

Use	Acres	Value Per Acre
Pasture	30.712	$8,140
Total		$250,000

Remarks: Great views

COMPARABLE SALE #3

County: Oldland
Property type: general farm
Address: 9876 Creek Road, Hot Glen, Oklahoma
Acreage: 41.1
Tax map: 77-A-92
Zoning: A-2
Sale price: $500,000
Date of sale: October 7, 2008
Recording reference: Deed Book 2404, Page 614
Grantor: Trustee of the Soe Family Trust
Grantee: Robert T. Dane
Data verified by: public record/realtor

COMPARABLE SALE #5 (continued)

Main Residence

Number of stories:	2	**Square feet:**	2,706		
Exterior walls:	vinyl/wood	**Roof surface:**	metal		
Basement:	--	**Fireplace:**	--		
Floor covering:	hardwood	**Interior walls:**	plaster		
Total rooms:	8	**Bedrooms:**	4	**Bathrooms:**	2
HVAC:	oil				
Actual age:	1790	**Condition:**	average		
Miscellaneous:					
Updates:	typical farmhouse in livable/average condition; no updates				

Improvements:

Description	Exterior Wall	Floor	Roof	Square Foot	Value Per Square Foot	Condition	Contributory Value
Dwelling	brick/vinyl	hardwood	metal	2,706	$45	Average	$121,770
Barn complex	wood	dirt	metal		LSV	Average	$12,430
Old poultry	metal	concrete	metal	storage	LSV	Fair	$4,000
Shop	vinyl	concrete	metal		LSV	Good	$5,000
Equipment shed	metal	dirt	metal		LSV	Average	$10,000
Site imprvmnts.							$18,000
						Total	$171,200

Site Improvements (list): well, septic, and drive

Land:

Use	Acres	Value Per Acre	Total Value
Crop	15	$8,000	$328,800
Pasture	26.10		
Total			$328,800

Remarks:

LAND VALUE COMPARISON

Date of value: June 10, 2009

Sale Number:	**1**	**2**	**3**
Sale Location:	Water Mill Lane Mistytown, OK	Hikers Road, Leafyville, OK	9876 Creek Road, Hot Glen, OK
Sale Date:	February 5, 2008	August 12, 2007	October 7, 2008
Units (Land Area):	39.677 acres	30.712 acres	41.1
Sale Price:	$337,254	$250,000	$328,800
Unit Price:	$8,500 acre	$8,140 acre	$8,000 acre
Interest:	0	0	0
Cash Equivalency:	0	0	0
Market Adjustment:	0	0	0
Adjusted Price:	$8,500 acre	$8,140 acre	$8,000 acre

Degree of Comparability:

Location:	0	0	0
Access:	0	0	0
Topography:	0	0	0
Public Utilities:	0	0	0
Utility:	0	0	0
Land Size:	0	0	0
Zoning:	0	0	0
Improvements:	0	0	(4,165)
Net Adjustments	0	0	0
Indicated Value	$8,500	$8,140	$8,000

Adopted Unit Value: $8,000 per acre

Estimated Market Value: 40.20 acres @ $8,000 per acre = $321,600

Rounded: $322,000

COMPARABLE SALE #4

County: Oldland
Property type: poultry - broilers
Address/location: Prickly Branch Road, Doeville, Oklahoma
Acreage: 28.85741 **Tax map number:** 111-A-181 **Zoning:** A1
Sale price: $905,000 **Date of sale:** March 30, 2006
Recording reference: Deed Book 2707, Page 694
Grantor: William E. and Katherine R. Woe
Grantee: Nathan B. and Sandra Loe
Data verified by: public records and SL 2005 appraisal

Main Residence

Number of stories: 1 **Square feet:** 1,080
Exterior walls: masonite siding **Roof surface:** shingle
Basement: -- **Fireplace:** --
Floor covering: carpet, vinyl **Interior walls:** drywall
Total rooms: 5 **Bedrooms:** 2 **Bathrooms:** 1
HVAC: EBB/no AC
Actual age: 20 yrs effective age **Condition:** average
Miscellaneous:
Updates: mobile home on concrete piers with under-skirting

Improvements:

Description	Exterior Wall	Floor	Roof	Square Foot	Value Per Square Foot	Condition	Contributory Value
Main dwelling	metal	crpt, vinyl	shingle	1,080	$50.92	Average	$55,000
Poultry unit	metal	concrete	metal	31,200	$7.44	1986	$232,363
Poultry unit	metal	concrete	metal	31,200	$7.44	1987	$232,363
Litter storage	metal	concrete	metal	2,600	$9.61	Good	$25,000
Compost building	metal	concrete	metal	3,192	$7.83	Good	$25,000
Generator & bldg.	metal	concrete	metal		Lump sum		$12,000
Site imprvmnts.							$34,700
						Total	$616,426

Site Improvements (list): well, septic, poultry house pads

Land:

Use	Acres	Value Per Acre	Total Value
Crop	28.85741	$10,000	$288,574
Total		$10,000	$288,574

Remarks: Poultry units have Choretime feeders and waterers, Choretronics computer system, radiant brooder stoves, and tunnel ventilation. Poultry units were converted from turkeys to broilers in 2004, so all equipment (including computer system), tunnel ventilation, and metal siding was basically new at time of sale.

COMPARABLE SALE #5

County: Anyland
Property type: poultry - broilers
Address/location: 222 Bowtown Lane, Marketplace, Oklahoma
Acreage: 60.003 **Tax map number:** 99-A-11
Zoning: general agriculture
Sale price: $750,000 **Date of sale:** March 3, 2008
Recording reference: Instrument #070002230
Grantor: James D. Carter, Jr.
Grantee: Richard K. Voe
Data verified by: public records and SL 2008 appraisal

Main Residence

Number of stories: 2 **Square feet:** 1,658
Exterior walls: vinyl siding **Roof surface:** metal
Basement: -- **Fireplace:** --
Floor covering: vinyl, laminate **Interior walls:** plaster, wallpaper, painted
Total rooms: 7 **Bedrooms:** 4 **Bathrooms:** 1
HVAC: gas forced air; no AC
Actual age: **Condition:** good
Miscellaneous:
Updates: vinyl siding, replacement windows, painted roof, new laminate in living room, new vinyl in kitchen and bathroom, new 2-story porch with vinyl railing.

Improvements:

Description	Exterior Wall	Floor	Roof	Square Foot	Value Per Square Foot	Condition	Contributory Value
Dwelling	vinyl siding	crpt, vinyl	metal	1,658	$58.92		$97,770
Poultry unit	metal	concrete	metal	25,200	$6.00		$151,200
Poultry unit	metal	concrete	metal	25,200	$6.00		$151,200
Litter storage	concrt/metal	concrete	metal	4,500	$3.33		$15,000
Shop/generator	metal	concrete	metal	1,800	$4.23	Average	$7,616
Bldg & generator							
Bank barn	metal	dirt/wood	metal	3,000		Good	$8,000
Misc. buildings					Lump sum	Fair	$1,200
Site imprvmnts.							$30,000
						Total	$461,986

Site Improvements (list): well, septic, poultry house pad

Land:

Use	Acres	Value Per Acre	Total Value
Pasture	60.003	$4,800	$288,014
Total		$4,800	$288,014

COMPARABLE SALE #5 (continued)

Remarks: Poultry units built in 1995, converted from turkeys to broilers in 2004. All equipment new – Choretime feeders; Ziggaty nipple drinkers; XYZ Company furnaces; LMN Company brooder stoves, tunnel ventilation, and foggers. Overall condition of poultry units is very good. 100 K W generator.

COMPARABLE SALE #6

County: Oldland
Property type: poultry - broilers
Address/location: 12345 Mountain Way, Leafyville, Oklahoma
Acreage: 47.50 **Tax map number:** 33-A-111 **Zoning:** A2
Sale price: $915,000 **Date of sale:** February 24, 2006
Recording reference: Deed Book 2811, Page 644
Grantor: Emanuel and Carla Ramos
Grantee: Damian and Angela Pedro
Data verified by: Deed – Joseph Goe appraisal

Main Residence

Number of stories: 1½ **Square feet:** 2,400
Exterior walls: brick, vinyl **Roof surface:** metal
Window type: double hung **Gutter:** metal
Basement: cellar **Fireplace:** 1 **Trim:** --
Floor covering: carpet, vinyl, wood **Interior walls:** drywall
Kitchen appliances: range, refrigerator, dishwasher
Total rooms: 9 **Bedrooms:** 3 **Bathrooms:** 2
HVAC: LP forced air; central AC
Actual age: Approx. 1940
Effective age: 10 years **Condition:** good
Miscellaneous:
Updates:

Improvements: In-ground pool, large concrete patio and deck around pool

Description	Exterior Wall	Floor	Roof	Square Foot	Value Per Square Foot	Condition	Contributory Value
Main Dwelling	brick/vinyl	crpt, vinyl	metal	2,400	$76.00	Good	$182,000
Double wide	vinyl	crpt, wood	shingle	1,700	$25.00	Average	$43,000
Poultry unit	Metal	dirt	metal	10,440	$2.69	Average	$28,100
Poultry unit	Metal	dirt	metal	11,232	$2.69	Average	$30,200
Poultry unit	Metal	dirt	metal	21,000	$3.85	Good	$80,800
Poultry unit	Metal	dirt	metal	16,800	$2.69	Average	$45,200
Poultry unit	metal	dirt	metal	16,800	$3.85	Good	$64,700
Mach shed/shop	block	concr/dirt	metal		Lump sum	Fair	$25,000
Poultry unit	storage				Lump sum	Fair	$20,000
Misc. buildings					Lump sum	Average	$25,000
Litter storage					Lump sum	Average	$15,000
Gen. bldg. & gen.					Lump sum		$20,000
Site imprvmnts.							$80,000
						Total	$659,000

COMPARABLE SALE #6 (continued)

Site Improvements (list): 1 well, 2 septics, 5 poultry pads, in-ground pool, concrete patio deck, fencing

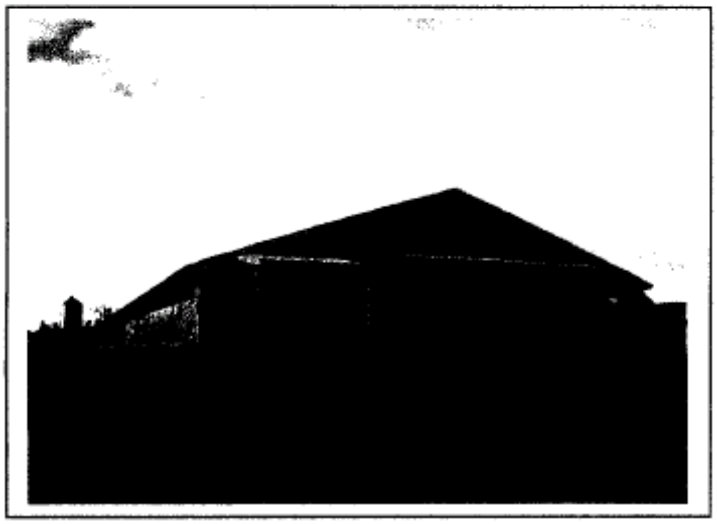
Land:

Use	Acres	Value Per Acre	Total Value
Pasture	47.50	$5,389	$256,000
Site preparation			
Total			

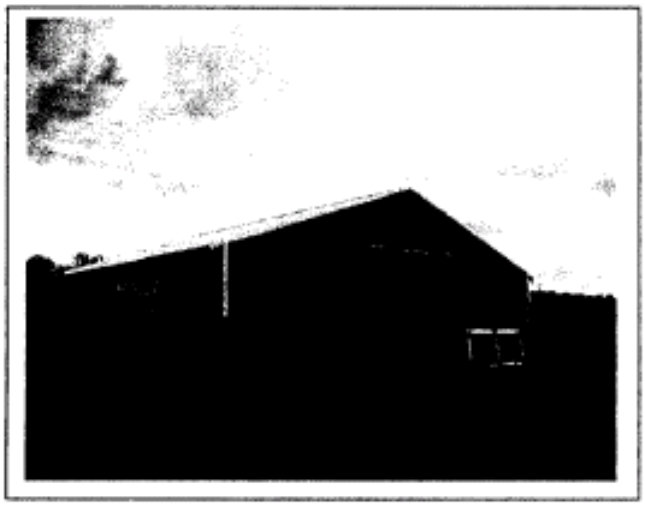
Remarks: Choretime feed lines; Ziggy fountains; LMN Company brooders in all units, only two computerized. Miscellaneous buildings include bank barn and four other garage/storage buildings, all with approximate value of $5,000 each.

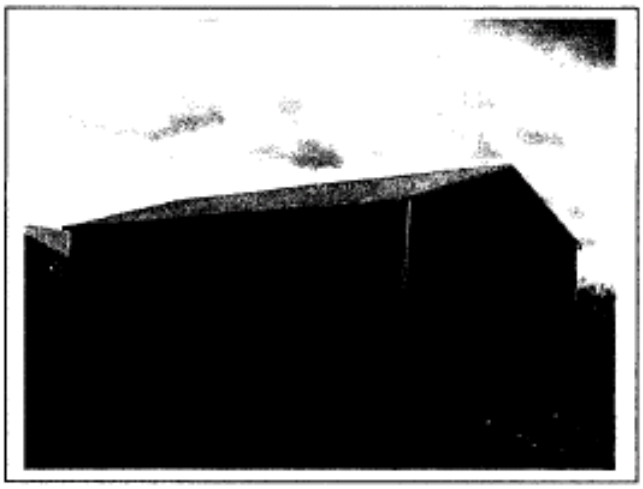
PHOTOGRAPHS OF COMPARABLE SALES

PHOTOGRAPHS OF COMPARABLE SALES (continued)

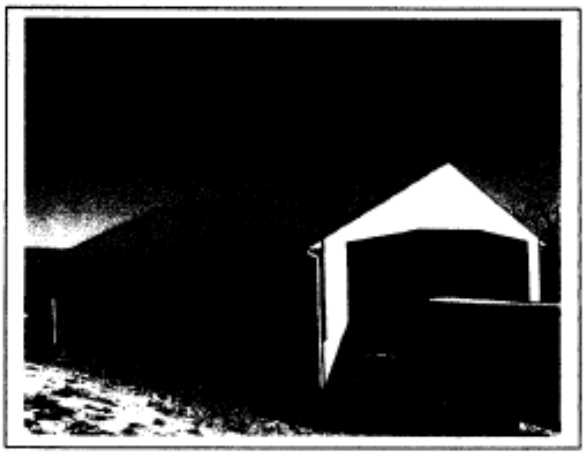


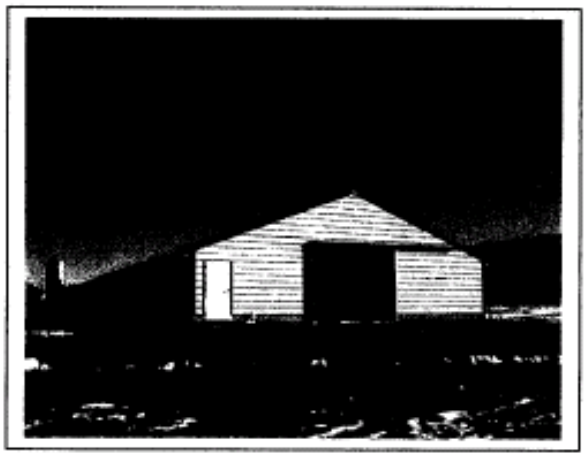
PHOTOGRAPHS OF COMPARABLE SALES (continued)

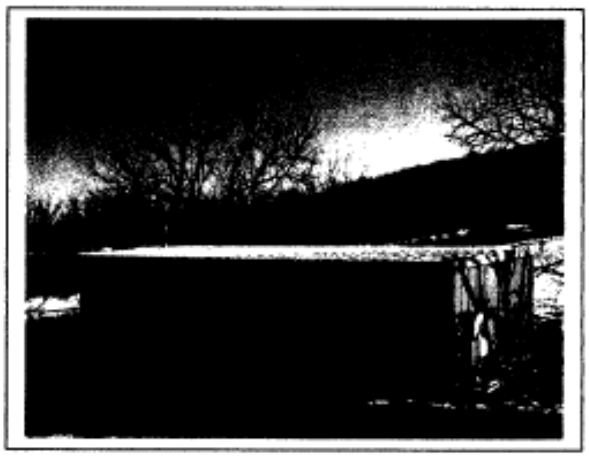


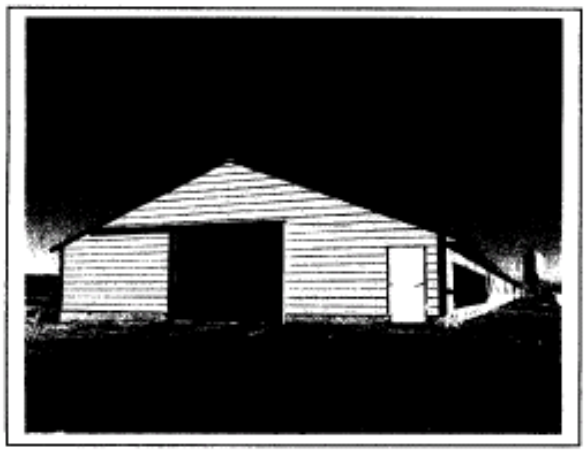


PHOTOGRAPHS OF COMPARABLE SALES (continued)









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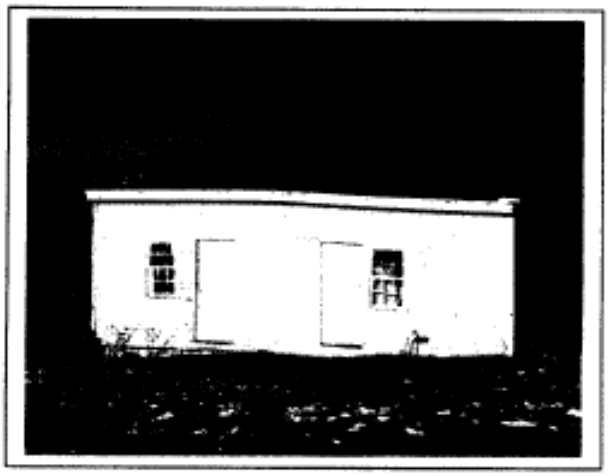
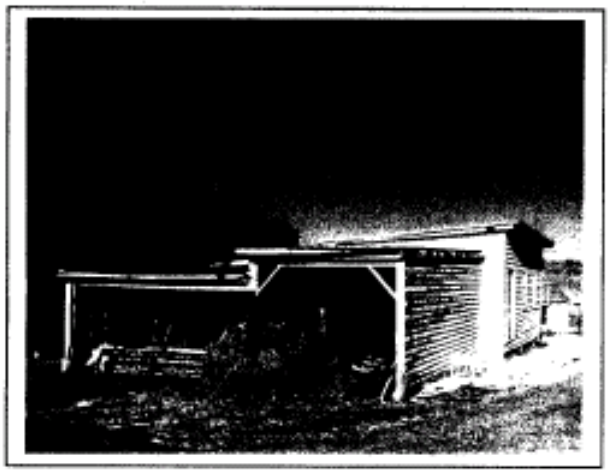
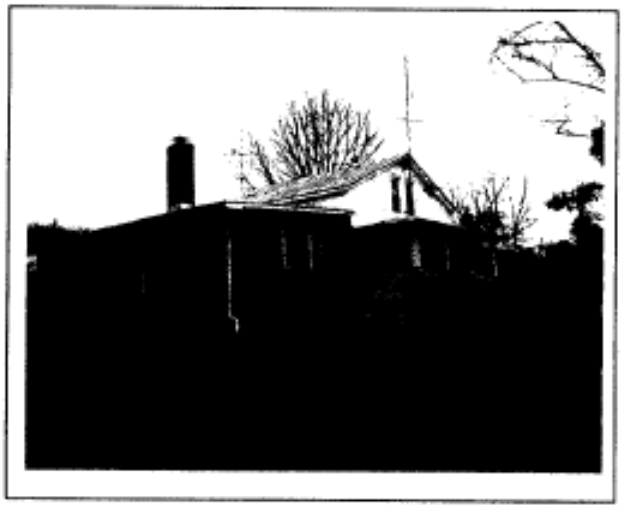


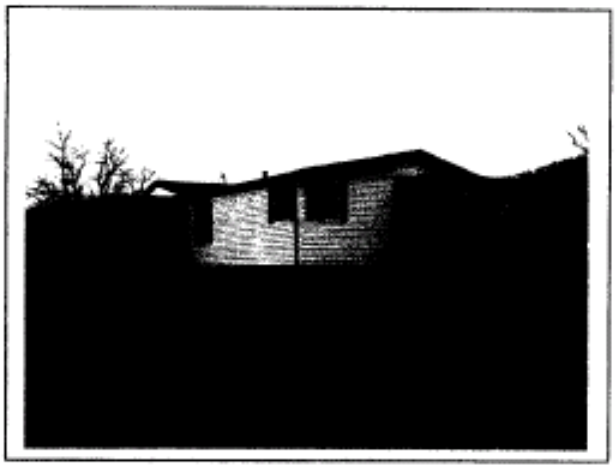


Subject Photographs



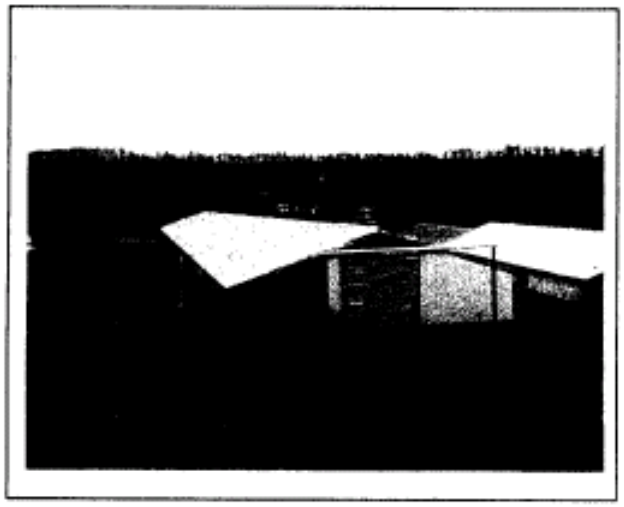
Subject
Dwelling
(Front)

Subject
Dwelling
(Rear)



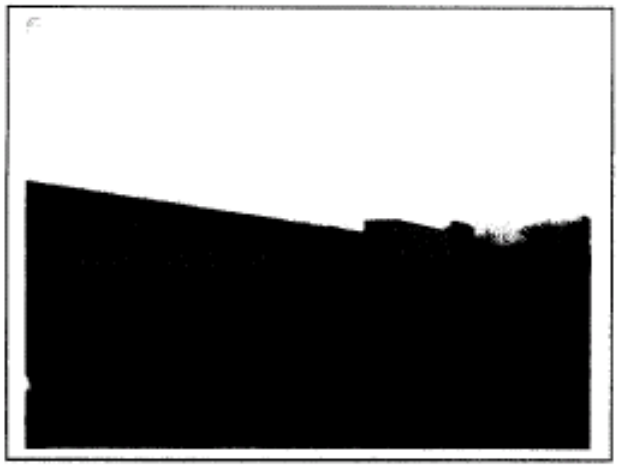
Subject
Double-wide

Subject Photographs (continued)



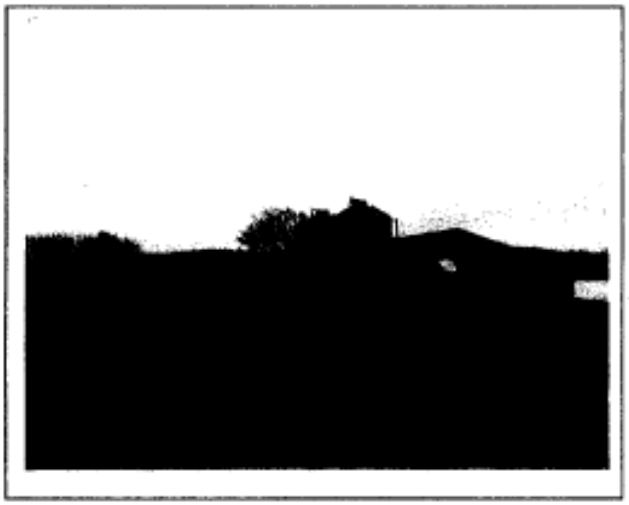
Subject
Poultry unit

Subject
Poultry unit

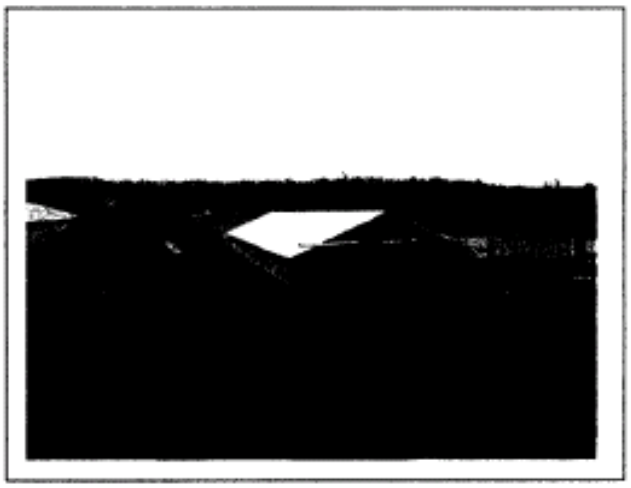


Subject
Poultry unit

Subject Photographs (continued)



Subject
Poultry unit

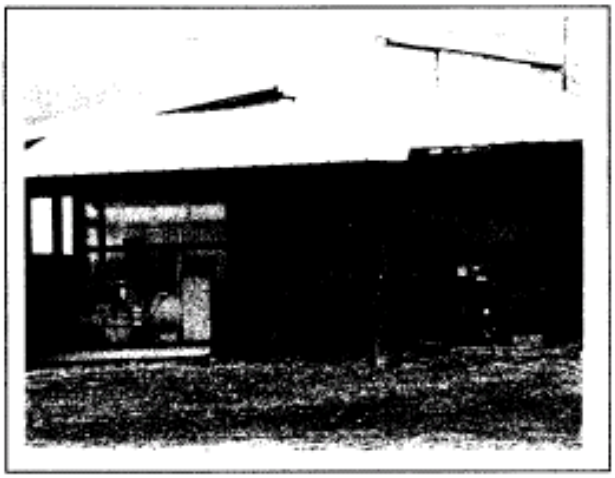


Subject
Poultry unit

Subject
Poultry Unit
(Storage only)

Subject Photographs (continued)

Subject
Shop/ machine shed

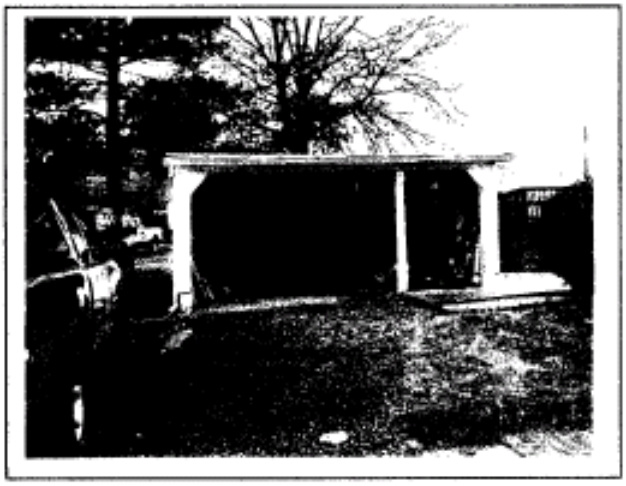


Subject
Generator

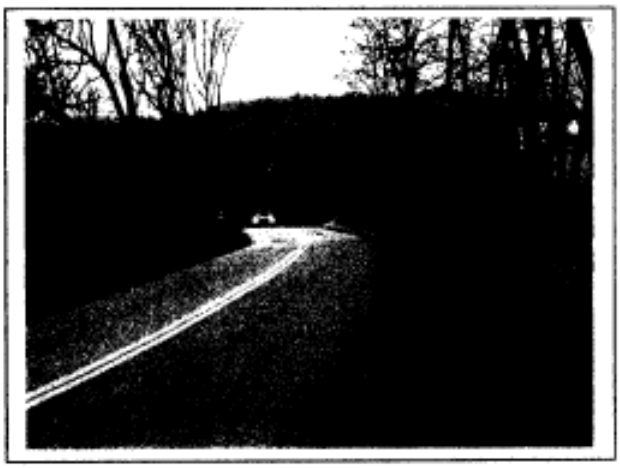
Subject
Litter storage

Subject Photographs (continued)

Subject
Utility building



Subject
Shed garage



Subject
Street scene

Sales Comparison Approach Analysis

Every effort has been made to use comparables sold within 3 years of appraisal date. Our database includes local multiple listing service (MLS) data, appraisal files and available public record, and is considered to be as good as or better than any competing appraisal service in our area. Paramount to time is matching the most similar sales to the subject. This at times necessitates using comparables sold over 3 years ago. The comparables used in this appraisal are felt to be the best and most representative current sales found for comparison in this report.

The comparables utilized in the land value comparison were the best obtained and are felt to reflect the market value of the subject. Comparable #3 was adjusted for improvement value and was utilized due to similarities (i.e., size, utility, and topography) to that of the subject.

Comparable #4, #5, and #6, as referenced in the subject comparison chart, were adjusted for typical land and building size variations. All adjustments are based on market contribution, not cost. Lump sum values for the subject have been market derived using match pair's analysis. Comparables #4 and #6 are somewhat dated and have been utilized due to the lack of similar poultry operation comparable sales in the market area. Use of other comparables would have required larger adjustments. The values derived from these comparisons all fall within an acceptable differential range and are felt to reflect the market value of the subject as dictated by the typical investor.

Marketability Analysis

Exposure time, in the case of real property, is the estimated length of time the property would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Exposure time is a retrospective opinion based on analysis of past events, assuming a competitive and open market.

The basis for determining the market exposure is simply by investigating actual sales of properties similar to the subject that have occurred and verifying the amount of time which was required between the date of listing and the actual consummation of the disposition. Interviews were conducted of active professionals knowledgeable of a given property type in a particular marketplace in order to estimate a reasonable period of time which would be necessary after the date of value. Also, to determine a reasonable exposure time a property would require in order to trade at what would be defined as a "reasonable exposure time," the fundamental underlying principle is that the property is correctly priced to sell.

Properties of this type are typically marketed through real estate brokerage and management firms. The marketing is achieved through multiple listing services (MLSs) and newspaper advertisements. In terms of investor's desirability, the subject property is an intermediate risk property.

Marketability Analysis (continued)

Correlating the data presented, the indicated exposure time ranges from 6 to 12 months. This is predicated on the physical condition of the subject property as detailed in the body of this report, financing being readily available and the listing price being consistent with the market value estimate herein effective at the date of appraisal.

Cost Approach

The cost approach to value is the reproduction cost of the improvements in a new condition, less accrued depreciation, plus the value of the land.

I have gathered current costs from local contractors actively engaged in building similar improvements in the area, and compared these costs to known costs published by current manual services.

Accrued depreciation is the difference between the cost new of the improvements and the value of the accrued depreciation on the date of the appraisal. Depreciation is losses in value from three categories: physical deterioration, functional obsolescence, and external obsolescence. Physical deterioration comes from normal wear and tear. Functional obsolescence is due to problems in design, over and under improvements, and changes in market standards over the years. External obsolescence can be attributed to forces outside the property; it results from such influences as changing land use patterns, adverse economic climates, and other drawbacks not under the control of the property owner. Herein I have utilized the age-life method of estimating physical depreciation in which the effective age is divided by the building's total economic life. I have found no functional or external obsolescence affecting the subject property.

I direct your attention to the following estimate of the subject's replacement costs.

Cost Analysis

1	Primary residence		
	2,642 square feet @$90.00 per square foot		$237,780
	Depreciation:		
	Economic life	60 years	
	Remaining economic life	50 years	
	Observed effective age	10 years	
	15 / 60 = 25 %		($38,045)
	Depreciation value of improvement		**$199,735**

Cost Analysis (continued)

2	Poultry units (three)		
	50,400 square feet @$6.00 per square foot		$302,400
	Depreciation:		
	Economic life	30 years	
	Remaining economic life	20 years	
	Observed effective age	10 years	
	20 / 30 = 66 %		($199,584)
	Depreciation value of improvement		**$102,816**
3	Poultry equipment		
	50,400 square feet @$4.00 per square foot		$201,600
	Depreciation:		
	Economic life	15 years	
	Remaining economic life	10 years	
	Observed effective age	5 years	
	5 / 15 = 66 %		($66,528)
	Depreciation value of improvement		**$135,072**
4	Litter storage		
	6,175 square feet @$8.00 per square foot		$49,400
	Depreciation:		
	Economic life	30 years	
	Remaining economic life	25 years	
	Observed effective age	5 years	
	15 / 30 = 50 %		($24,700)
	Depreciation value of improvement		**$24,700**
5	Generator/building (lump sum value)		**$8,000**
6	Miscellaneous buildings		**$2,000**
7	Site improvements (lump sum value)		**$30,000**
	Wells, septic systems 3 pads		
	Depreciated value of all improvements		**$502,323**
	Site value by the sales comparison approach		**$322,000**
	VALUE OF SUBJECT VIA THE COST APPROACH		**$824,323**
	ROUNDED		**$824,000**

Income Approach

The income approach is one of the three approaches to value in appraisal where the value of the property is derived by converting the expected income generated from a property into a present value estimate using one of many income capitalization methods.

In this approach, a property is viewed through the eyes of a typical buyer whose primary objective is to earn a profit on the investment generated from the operation of the enterprise. The theoretical basis for this approach comes from the principal of anticipation and applies because the value of a property is, in theory, the present value of expected future cash flow. The principle of substitution is also applicable because income for the subject property must be in line with those of competitive (substitute) enterprises. Furthermore, the value estimated by the income approach assumes that operators will earn a rate of return that is consistent with that available for alternative investments of comparable risk. In this application, the enterprise is expected to be under responsible management. Farm income, specifically poultry income, has been extracted from actual schedule F tax returns and analyzed for comparison to comparable sold enterprises. When management is deemed less than adequate or current operations lack longevity, I have estimated the expected income based on competing enterprises.

Expenses have been applied by either utilizing actual Schedule F expenses or estimated by comparison to other competing operations. Repairs and maintenance expenses include normal operating expenses, maintenance, and updates of the buildings and poultry equipment. A yearly replacement and reserve allowance has been applied to replace poultry equipment at the end of its economic life, estimated to be 15 years, derived as follows: cost / economic life = reserve allowance.

Income approach capitalization rate estimation has been estimated by market extraction from a sales study. All data in the sales study ahs been examined and compared to he subject to attempt to extract sales which mirror the subject. The following sales are felt to most nearly mirror the subject and have been utilized to extract an acceptable capitalization rate. Sale prices have been adjusted on sale #7 to reflect excess land. Based on these following selected sales, I have estimated a capitalization rate for the subject of 7.5

1	Broilers	Closed 3/08	
	Sale price $750,000	NOI $54,018	.072 cap rate indicated
2	Broilers	Closed 10/07	
	Sale price $1,250,000	NOI $101,901	.0815 cap rate indicated
3	Broilers	Closed 1/06	
	Sale price $905,000	NOI $68,051	.075 cap rate indicated

Income Approach (continued)

4	Broiler-breeder	Closed 2/08	
	Sale price $650,000	NOI $34,706	.061 cap rate indicated
5	Broiler-breeder	Closed 3/08	
	Sale price $500,000	NOI $45,051	.09 cap rate indicated
6	Turkeys	Closed 9/07	
	Sale price $925,000	NOI $86,855	.094 cap rate indicated
7	Turkeys	Closed 11/06	
	Sale price $935,000 - $240,000 (excess land) = $695,000		
		NOI $50,536	.073 cap rate indicated
8	Turkeys	Closed 6/06	
	Sale price $790,500	NOI $37,074	.087 cap rate indicated

Yearly Income and Expense Summary

INCOME:

Poultry Income – 50,400 square feet @ $2.38 per square foot	$119,950
Primary residence - $1,000 per month x 12 months	$12,000
Effective gross income	$131,952

EXPENSES:

Real estate taxes	$2,413
Insurance	$2,000
Replacement reserves	$13,440
Repairs, maintenance	$2,500
Utilities, LP and litter	$28,800
Labor	$30,000
Total expenses	$79,153

Yearly Income and Expense Summary (continued)

EFFECTIVE GROSS INCOME	$131,952
LESS EXPENSES	($79,153)
NET OPERATING INCOME	$52,799
DIVIDED BY CAPITALIZATION RATE OF:	7.5%
	$703,987
EXCESS LAND 10 acres x $8,000 per acre	$80,000 $783,987
VALUE INDICATED BY THE INCOME APPROACH:	$783,987
ROUNDED	$784,000

NOTE:
The subject consists of 25 acres of which approximately 15 acres are required to support the current poultry operation. The remaining acreage (10 acres) is considered excess land and has been valued utilizing the market approach.

Value Reconciliation

Reconciliation is the culminating of ideas or indications to arrive at a final value. The different indications of value derived in this appraisal report follow:

Subject value indicated by cost approach	$824,000
Subject value indicated by income approach	$784,000
Subject value indicated by sales comparison approach	$800,000

Each approach is a comparative analysis of the data in the marketplace, which is signification and applicable to the use of the respective approach. The accuracy and reliability of each approach is dependent on the quality and quantity of the market data available, the type of property being appraised and the definition of market value.

The first step in the analysis was estimating the value of the subject site as vacant. Land sales were researched throughout the market area, which were representative of the highest and best use of the subject parcel. These sales were reasonably current and parallel the economic environment of the subject. The comparable sales, with the recited adjustments applied, are resultant in a defensible estimate of market value for the site.

Value Reconciliation (continued)

The next subsequent step in the analysis was to formulate the cost approach. This approach is historically considered to be the least reliable because these properties are generally purchased and sold on the basis of their income producing potential or as a lifestyle farm and not necessarily on replacement cost. The cost approach is considered to be more reliable when the property is not a special use property, reasonably new, and has a nominal degree of physical depreciation. In the final analysis, the cost approach was given limited weight.

The sales comparison analysis represents the purchasing attitude of the average buyer and seller in the marketplace. This approach is limited by the availability of comparable sales with similar utility, age, and quality of construction. The sales herein recited represent varying degrees of similarity to the subject. Subjective estimates would have been required for the price per square foot method. Secondary weight was given to this approach.

The income approach is considered to be one of the best indicators of value in this type of agricultural property. A considerable portion of this report is given to this approach as it best exemplifies the methodology, which is applied by typical purchasers/operators when considering the purchase of agricultural property. This approach has been given primary weight in the final estimation of subject value.

The approaches indicated above were utilized to make the final value estimate. I have carefully re-examined each step in each method, and I believe the conclusions accurately reflect the attitude of typical purchaser. It is my belief that this re-examination has confirmed original conclusions.

Mineral Rights Valuation

The precise value of mineral interests in existence as well as the economic feasibility to extract minerals from the subject property, or any anticipated future annual production or income from the production of minerals that the appraiser is aware of is unknown. This appraisal is not an exhaustive study of the actual or potential mineral production, but is based on the best information available as of the effective date of the appraisal. The opinion of value of the mineral rights based on this information is $1.00. Mineral rights run with the land and are not separate.

Certification of Value

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- Bill Mathews made a personal inspection of the property that is the subject of this report. He did not view the interior of the buildings.
- No one provided significant professional assistance to the persons signing this report, including data collection and interpretation.
- Based on my analysis of the data, subject to the limiting conditions and definitions set forth herein, it is my opinion that the market value of the fee simple estate of the subject property as of July 20, 2009, on an “as is” basis, is:

Six Hundred Fifty Thousand Dollars
($650,000)

PRINCIPAL APPRAISER

Date of appraisal: July 20, 2009
Date of report: July 25, 2009

Name: Bill Mathews

Signature: *William Mathews*

State Certification Number: 1111-222222
Expiration Date: December 31, 2010

Appendix C: Job Aids

FSA-2165, Administrative Appraisal Review Form (blank) C-2

Sample FSA-2165 (completed) C-3

FSA-2165, Administrative Appraisal Review Form, Job Aid C-4

Regulatory Resources C-6

Cost (Summation) Approach Job Aid C-23

Sales (Market Data) Comparison Approach Job Aid C-27

Income (Capitalization) Approach Job Aid C-30

Process Flowchart: Report Acceptable-Unacceptable C-31

Common Appraisal Report Discrepancies C-32

FSA-2165, Administrative Appraisal Review Form (blank)

This form is available electronically.

FSA-2165 (02-18-09) **U.S DEPARTMENT OF AGRICULTURE** Farm Service Agency **ADMINISTRATIVE APPRAISAL REVIEW**	1A. FSA County Office Name and Address *(Including Zip Code)* 1B. Telephone County *(Including Area Code)*:	
2. Name of Applicant/Borrower	3. Subject County	4. Number of Acres
5A. Name of Appraiser	5B. License Number	5C. State Issued

6. Type of Appraiser's License Classification: ☐ Certified General ☐ Certified Residential ☐ Licensed Residential ☐ Trainee ☐ None

7. Type of Appraisal Report : ☐ Self-Contained ☐ Summary ☐ Restricted	8. Effective Date of Appraisal	9. Date Appraisal Signed
10. Lenders Name *(If applicable*	11. Classification of Guaranteed Lender *(If Applicable)* ☐ SEL ☐ CLP ☐ PLP 12. Source of Report ☐ Guaranteed Lender ☐ BPA/Contract ☐ Third Party ☐ FSA Staff	

NOTE: **The purpose of this review is to meet the recommendations set out in the Uniform Standards of Professional Appraisal Practice. The Administrative Review may only be used by agency officials, duly trained in performing administrative reviews, and granted administrative appraisal review authority. It is intended that it be completed for Farm Loan Programs direct and guaranteed loans and servicing actions requiring a real estate appraisal. ANY SERIOUS PROBLEMS, APPRAISAL ERRORS OR OMISSIONS WILL BE IMMEDIATLEY REPORTED TO THE STATE OFFICE AND THE LOAN OR SERVICING ACTION WILL NOT BE APPROVED. (REPORT PROBLEMS THAT WILL SIGNIFICANTLY IMPACT THE MARKET VALUE.)**

13. Introductory Information Complete: *(Property and legal description, client, intended user, purpose and intended use, rights appraised, scope of appraisal, highest and best use, alternative uses, easements.)*

14. General Information Included: *(Neighborhood analysis and general characteristics, market area and boundaries, natural resources, sewer and water systems, potential hazardous materials, environmental issues.)*

15. Comparable Sales: *(Sufficient number of recent sales described and analyzed to support the three approaches to value, maps, soils, topography, photos, construction, etc.)*

16. Subject Building or Improvements: *(Adequately described, photos attached.)* Building/Improvement Value: $ _____

17. Cost (Summation) Approach: **$** _____ *(Land classes, land values supported by comparable sales, RCN supported, RCN less depreciation is improvement value, depreciation supported and properly computed, math correct.)*

18. Sales Comparison (Market Data) Approach: **$** _____ *(Sales support adjustments for land, time, location, building and other adjustments, math correct, value within range from comparables.)*

19. Income (Capitalization) Approach: **$** _____ *(Income and expenses supported, rates derived from sales, math correct.)*

20. Reconciliation of Value: Opinion of Market Value: **$** _____ *(Did appraiser make comments as to which approach selected and why, exclusions explained.)*

21. Separate valuation of mineral rights identified in the appraisal *(For FSA direct loan purposes only:)* ☐ **YES** ☐ **NO** ☐ **N/A**

22. Is the Appraisal Acceptable for FSA's Intended Use? ☐ **YES** ☐ **NO**

23. If appraisal is not acceptable the appraisal should be rejected and reported to the State Office. General Comments: *(Overall quality, value determined on an informed basis.)*

24A. Signature of FSA Reviewing Official	24B. Title	24C. Date

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.

Sample FSA-2165 (completed)

This form is available electronically.

FSA-2165 (02-18-09) **U.S DEPARTMENT OF AGRICULTURE** Farm Service Agency

ADMINISTRATIVE APPRAISAL REVIEW

1A. FSA County Office Name and Address *(Including Zip Code)*
11 Maple Lane
PO Box 1
Treeville, OK 11111

1B. Telephone County *(Including Area Code)*: 555/111-2222

2. Name of Applicant/Borrower	3. Subject County	4. Number of Acres
David and Mary Johnson	Oldland	25

5A. Name of Appraiser	5B. License Number	5C. State Issued
Bill Mathews	1111-222222	OK

6. Type of Appraiser's License Classification: ☒ Certified General ☐ Certified Residential ☐ Licensed Residential ☐ Trainee ☐ None

7. Type of Appraisal Report :	8. Effective Date of Appraisal	9. Date Appraisal Signed
☐ Self-Contained ☒ Summary ☐ Restricted	01/01/2009	01/03/2009

10. Lenders Name *(If applicable*

11. Classification of Guaranteed Lender *(If Applicable)*
☐ SEL ☐ CLP ☐ PLP

12. Source of Report
☐ Guaranteed Lender ☐ BPA/Contract ☒ Third Party ☐ FSA Staff

NOTE: The purpose of this review is to meet the recommendations set out in the Uniform Standards of Professional Appraisal Practice. The Administrative Review may only be used by agency officials, duly trained in performing administrative reviews, and granted administrative appraisal review authority. It is intended that it be completed for Farm Loan Programs direct and guaranteed loans and servicing actions requiring a real estate appraisal. **ANY SERIOUS PROBLEMS, APPRAISAL ERRORS OR OMISSIONS WILL BE IMMEDIATLEY REPORTED TO THE STATE OFFICE AND THE LOAN OR SERVICING ACTION WILL NOT BE APPROVED. (REPORT PROBLEMS THAT WILL SIGNIFICANTLY IMPACT THE MARKET VALUE.)**

13. Introductory Information Complete: *(Property and legal description, client, intended user, purpose and intended use, rights appraised, scope of appraisal, highest and best use, alternative uses, easements.)*
Documented and adequate.

14. General Information Included: *(Neighborhood analysis and general characteristics, market area and boundaries, natural resources, sewer and water systems, potential hazardous materials, environmental issues.)*
Items addressed and adequate.

15. Comparable Sales: *(Sufficient number of recent sales described and analyzed to support the three approaches to value, maps, soils, topography, photos, construction, etc.)*
Adequate number of recent sales, maps attached, spoils discussed, photos attached.

16. Subject Building or Improvements: *(Adequately described, photos attached.)* Building/Improvement Value: $ 502,323
Description of improvements adequate, photos attached.

17. Cost (Summation) Approach: $ 824,323 *(Land classes, land values supported by comparable sales, RCN supported, RCN less depreciation is improvement value, depreciation supported and properly computed, math correct.)*
Land values supported, math correct, acres correct.

18. Sales Comparison (Market Data) Approach: $ 800,000 *(Sales support adjustments for land, time, location, building and other adjustments, math correct, value within range from comparables.)*
Comp data provided, adjustments explained, comps sufficient and similar, math correct, value reconciled.

19. Income (Capitalization) Approach: $ 783,987 *(Income and expenses supported, rates derived from sales, math correct.)*
Income and expense supported, math correct.

20. Reconciliation of Value: Opinion of Market Value: $ 790,000 *(Did appraiser make comments as to which approach selected and why, exclusions explained.)*
Approaches discussed and final value reconciled and reasonable.

21. Separate valuation of mineral rights identified in the appraisal *(For FSA direct loan purposes only:)* ☐ YES ☒ NO ☐ N/A

22. Is the Appraisal Acceptable for FSA's Intended Use? ☒ YES ☐ NO

23. If appraisal is not acceptable the appraisal should be rejected and reported to the State Office. General Comments: *(Overall quality, value determined on an informed basis.)*

24A. Signature of FSA Reviewing Official	24B. Title	24C. Date
Joe Smith	Farm Loan Manager	01/05/2010

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FSA-2165, Administrative Appraisal Review Form, Job Aid

The FSA-2165, Administrative Appraisal Review Form, can be broken down into four main sections.

- Items 1 – 12. This section is often referred to as the "header" portion of the FSA-2165. The information required in this section is mandated by the Uniform Standards of Professional Appraisal Practice (USPAP) to be in the appraisal report and can typically be found on the cover and/or cover letter of an appraisal report.

  [Between items 12 and 13, you will see the NOTE, also referred to as the FSA-2165 Purpose Statement. The NOTE provides you with the purpose of doing the review (reference to USPAP); who should be doing the review; and what to do about serious problems encountered when doing the review. The NOTE also serves as an indicator to you that you will now begin the more substantive, analytical part of your appraisal review. For many of the remaining items, you are required to make decisions about what you see in the appraisal report and provide comments on these decisions.]

- Items 13 – 16. This section requires you to review the appraisal report for information, supporting documentation, and other verifying data that the appraiser gathered and analyzed. This section will give you an indication of how comprehensive the appraiser's work was, and whether an adequate level of detail was provided in the report. For each item in this section, you will review appropriate portion(s) of the appraisal report and then note your findings. In your review, you will look for the level of detail provided in the report regarding: the property and client (item 13); the neighborhood, market, and natural and environmental resources and issues (item 14); comparable sales (item 15); and subject building or improvements (item 16)

- Items 17 – 21. This section requires you to analyze the information and conclusions provided in the appraisal report. For these particular items, however, you are commenting on the appraiser's completion of three specific approaches to value (17 – 19), the appraiser's final value opinion (20), and a separate valuation of mineral rights (21)

- Items 22 – 24. This section requires you to provide your conclusions, decision, and certification for your review of the appraisal report.

The next page provides an illustration of the form, with callouts containing brief descriptions of these sections.

FSA-2165, Administrative Appraisal Review Form, Job Aid (continued)

This form is available electronically.

FSA-2165 (02-18-09) **U.S DEPARTMENT OF AGRICULTURE** Farm Service Agency

ADMINISTRATIVE APPRAISAL REVIEW

1A. FSA County Office Name and Address *(Including Zip Code)*

1B. Telephone County *(Including Area Code)*:

2. Name of Applicant/Borrower

3. Subject County

4. Number of Acres

5A. Name of Appraiser

5B. License Number

5C. State Issued

6. Type of Appraiser's License Classification: ☐ Certified General ☐ Certified Residential ☐ Licensed Residential ☐ Trainee ☐ None

7. Type of Appraisal Report : ☐ Self-Contained ☐ Summary ☐ Restricted

8. Effective Date of Appraisal

9. Date Appraisal Signed

10. Lenders Name *(If applicable*

11. Classification of Guaranteed Lender *(If Applicable)* ☐ SEL ☐ CLP ☐ PLP

12. Source of Report ☐ Guaranteed Lender ☐ BPA/Contract ☐ Third Party ☐ FSA Staff

NOTE: The purpose of this review is to meet the recommendations set out in the Uniform Standards of Professional Appraisal Practice. The Administrative Review may only be used by agency officials, duly trained in performing administrative reviews, and granted administrative appraisal review authority. It is intended that it be completed for Farm Loan Programs direct and guaranteed loans and servicing actions requiring a real estate appraisal. **ANY SERIOUS PROBLEMS, APPRAISAL ERRORS OR OMISSIONS WILL BE IMMEDIATLEY REPORTED TO THE STATE OFFICE AND THE LOAN OR SERVICING ACTION WILL NOT BE APPROVED. (REPORT PROBLEMS THAT WILL SIGNIFICANTLY IMPACT THE MARKET VALUE.)**

13. Introductory Information Complete: *(Property and legal description, client, intended user, purpose and intended use, rights appraised, scope of appraisal, highest and best use, alternative uses, easements.)*

14. General Information Included: *(Neighborhood analysis and general characteristics, market area and boundaries, natural resources, sewer and water systems, potential hazardous materials, environmental issues.)*

15. Comparable Sales: *(Sufficient number of recent sales described and analyzed to support the three approaches to value, maps, soils, topography, photos, construction, etc.)*

16. Subject Building or Improvements: *(Adequately described, photos attached.)* Building/Improvement Value: $ _____

17. Cost (Summation) Approach: $ _____ *(Land classes, land values supported by comparable sales, RCN supported, RCN less depreciation is improvement value, depreciation supported and properly computed, math correct.)*

18. Sales Comparison (Market Data) Approach: $ _____ *(Sales support adjustments for land, time, location, building and other adjustments, math correct, value within range from comparables.)*

19. Income (Capitalization) Approach: $ _____ *(Income and expenses supported, rates derived from sales, math correct.)*

20. Reconciliation of Value: Opinion of Market Value: $ _____ *(Did appraiser make comments as to which approach selected and why, exclusions explained.)*

21. Separate valuation of mineral rights identified in the appraisal *(For FSA direct loan purposes only:)* ☐ **YES** ☐ **NO** ☐ **N/A**

22. Is the Appraisal Acceptable for FSA's Intended Use? ☐ **YES** ☐ **NO**

23. If appraisal is not acceptable the appraisal should be rejected and reported to the State Office. General Comments: *(Overall quality, value determined on an informed basis.)*

24A. Signature of FSA Reviewing Official

24B. Title

24C. Date

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.

Items 1 through 12: "Header" or identification information

Items 13 through 16: More substantive, analytical information

Items 17 through 21: Substantive, analytical information on value approaches and determinations

Items 22 through 24: Reviewer's decisions, conclusions, and certification

Regulatory Resources

For FSA and other federal agencies, regulatory requirements were established to enforce proper appraisal and lending practices and to help ensure that mortgage fraud would not occur. There are two regulatory resources related to administrative appraisal review:

- FSA Handbook
- Uniform Standards of Professional Appraisal Practice (USPAP)

FSA Handbook

Handbook 1-FLP	
Par 141 B	Appraisals are an integral part of the loan evaluation and servicing processes to determine whether there is adequate security to support a loan or servicing action.
Par 141 C	Appraisals for direct loans must comply with USPAP as well as applicable agency regulations.
Par 141 E	For all direct credit transactions equal to or greater than $100,000, and complex transactions under $100,000, the appraisal must be completed by a state certified general appraiser or a full-time or part-time designated appraiser/reviewer. For all direct credit transactions, non-complex under $100,000, the appraisal may be completed by a state licensed or state certified general appraiser or a full-time or part-time designated appraiser/reviewer or an FSA limited authority appraiser.
Par 141 G	Third Party Appraisals: FSA may use an appraisal completed for a third party (other lenders) provided the: • Appraisal was completed within previous 12 months. • Appraisal is signed by state certified general appraiser licensed in the state. • Intended use of the report stated a use that is consistent with FSA need. FSA does not need to be listed as a user on the report, but FSA must verify the appraisal was ordered by and prepared for a financial institution or land trust. • Borrower-ordered appraisals are not acceptable except as provided in 5-FLP. If the administrative review of a third party appraisal concludes the appraisal is not acceptable for FSA use, a technical review should not be completed, nor should the report used. • The review and comments denying the use of the appraisal should be forwarded to the state appraiser.

Regulatory Resources (continued)

Handbook 1-FLP (continued)	
Par 142 B	A real estate appraisal report, as a minimum, will be a summary appraisal report as defined by USPAP. Prior written approval is needed for a restricted report (this has been re-delegated to the state appraiser). The real estate appraisal must include: • As a minimum, documentation of the results for the three approaches ***if applicable***: cost, sales comparison, income. Who decides what is applicable? The appraiser makes the decision. Appraisers should clearly state in the report if one or more of the acceptable approaches is not needed, not applicable, or excluded, and why. • Basis for adjustments (i.e., land mix, time, water, depreciation, soils). • The comparable sales used, including breakdown of land contribution by land class, building contribution by improvement, derived depreciation rates, and basis of cost. • Remaining life, timber mineral value, water rights and volume, water delivery system, photos of improvements • Three years sales history of subject if applicable. • The value of mineral rights, if known; or the following statement, if no known minerals. "The precise value of mineral interests in existence, as well as the economic feasibility to extract minerals from the subject property, or any anticipated future annual production or income from the production of minerals is unknown to the appraiser. This appraisal is not an exhaustive study of the actual or potential mineral production, and is based on the best information available as of the effective date of the appraisal. The final opinion of value in the appraisal report includes mineral rights of the subject property."

Regulatory Resources (continued)

Handbook 2-FLP	
Par 181 E	Real estate appraisals are not required: • When real estate is taken for additional security. • For loans of $50,000 or less if a strong equity position exists.
Par 183 A	Real estate appraisals must be completed in accordance with USPAP.
Par 183 B	Appraisals must be in a self-contained or summary format. Restricted reports, as per USPAP, are not acceptable.
Par 183 C	For loan transactions over $250,000, the appraisal must be completed by a state certified general appraiser. For loan transactions under $250,000, the lender may use a licensed or unlicensed appraiser such as a bank employee. (See 2-FLP183 C SD Amend. 3)
Handbook 3-FLP	
Par 95 A	The value of real estate will be established by an appraisal. • A real estate appraisal is required when real estate is taken as primary security and the loan secured by the real estate exceeds $50,000.
Par 198 A	The agency may waive the appraisal requirement when the estimated value of the security is less than $25,000 for regular loan servicing.
Handbook 4-FLP	
Par 99 G	Mineral Leases Per 7 CFR 765.252 (b), the borrower must request Agency consent to lease any mineral rights used as security for Agency loans. (1) For loans secured by real estate before December 23, 1985, the Agency has a security interest in any mineral rights the borrower has on the real estate pledged as collateral. (2) For loans secured by real estate on or after December 23, 1985, the Agency has a security interest in any mineral rights if the mineral rights were included in an appraisal. (3) The Agency may consent to a mineral lease if the proposed use of the leased rights will not adversely affect either: (i) The Agency's security interest; or (ii) Compliance with any applicable environmental requirements of subpart G of7 CFR part 1940.

Regulatory Resources (continued)

Handbook 4-FLP (continued)	
Par 119 A	Appraisals Per 7 CFR 765.205(d), an appraisal of the property that secures the Agency loan will be required when the Agency determines it necessary to protect its interest. Appraisals will be obtained in accordance with § 761.7 (1-FLP) of this chapter. At a minimum, real estate appraisals will be obtained when property is to be improved, purchased, or exchanged. FSA does not require an appraisal for real estate security when the: • Loan for which the borrower requests the subordination is to refinance an existing prior lien and the resulting prior lien will not be increased. • Borrower's case file contains an existing appraisal that is less than 1 year old and FSA determines the appraisal to still be sufficiently accurate. FSA does not require an appraisal for chattel security when the: • Proposed subordination is for annual operating and family living expenses only and the projected income from farm production exceeds the subordination amount. • Existing FSA appraisal is less than 1 year old and the authorized agency official determines it to be adequate (the authorized agency official must consider property additions to, and deletions from, the latest FSA appraisal) and fully document the decision.
Par 198 A	Appraisal Requirements Per 7 CFR 765.353(a): (1) The Agency will obtain an appraisal of the security proposed for disposition. (2) The Agency may waive the appraisal requirement when the estimated value is less than $25,000. Per 7 CFR 765.353(b), the Agency will obtain an appraisal of the remaining security if it determines that the transaction will reduce the value of the remaining security. A new appraisal report for the security to be: • Transferred or released will be obtained when authorized agency official believes it necessary to protect the financial interests of the Government or when the transaction involves more than $25,000 • Retained will only be obtained when authorized agency official determines that the value of the retained property could be adversely affected by the loss of the transferred or released property.

Regulatory Resources (continued)

Handbook 4-FLP (continued)	
Par 198 A (continued)	Appraisal reports under this section may show the present market value of the property being transferred or released, and the property being retained, on a single appraisal report or on separate appraisal reports. The value of rights to mining products, gravel, oil, gas, coal or other minerals will be specifically included as a part of the appraised value of the real estate security. Per 7 CFR 765.353(c), appraisals, when required, will be conducted in accordance with § 761.7 of this chapter (1-FLP, Part 6.).
Handbook 5-FLP	
Par 104 A	Current Appraisals Per 7 CFR 766.105(c), the Agency will obtain an appraisal on: (1) All Agency security, non-essential assets, and real property unencumbered by the Agency that does not meet the criteria established in § 766.112(b) (subparagraph 211 C), when: (i) A writedown is required to develop a feasible plan; (ii) The borrower will be offered current market value buyout. (2) The borrower's non-essential assets when their net recovery value may be adequate to bring the delinquent loans current. If preliminary DALR$ calculations, with no security entered, show that a write-down or current market value buyout may be required: • All security will need to be appraised for write-down or current market value calculations • Nonessential assets will need to be appraised as their value is required for DALR$ calculations • If FSA has real estate as security and the preliminary DALR$ report shows a possible write-down, real estate security projected to be obtained as a best lien obtainable will need to be appraised as the value is required for shared appreciation agreement calculations. To save appraisal funds, SED may issue a State supplement on obtaining appraisals in stages, such as waiting on the appraisal of essential, unencumbered real estate to determine whether a write-down and FSA-2543 will actually be required. See 1-FLP, Part 6 for additional information on appraisals.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 116 B	Agency Notification of Servicing Decision – Notifying Financially Distressed or Current Borrowers Per 7 CFR 766.106 (a): (1) If the borrower can develop a feasible plan and is eligible for primary loan servicing, the Agency will offer to service the account. Upon approval by FLM, or SED if any debt is projected to be forgiven, the borrower will be sent FSA-2519 and FSA-2520 by the authorized agency official. (i) The borrower will have 45 days to accept the offer of servicing. After accepting the Agency's offer, the borrower must execute loan agreements and security instruments, as appropriate. (ii) If the borrower does not accept the offer, the Agency will send the borrower another notification of the availability of loan servicing if the borrower becomes 90 days past due in accordance with § 766.101(a)(2) (subparagraph 66 A). (2) If the borrower cannot develop a feasible plan, or is not eligible for loan servicing, the Agency will send the borrower the calculations used and the reasons for the adverse decision. Upon denial by FLM, the borrower will be sent FSA-2523 and FSA-2524 by the authorized agency official. A copy of the DALR$ report will be included. (i) The borrower may request reconsideration, mediation and appeal in accordance with 7 CFR parts 11 and 780 of this title. (ii) The Agency will send the borrower another notification of the availability of loan servicing if the borrower becomes 90 days past due in accordance with § 766.101(a)(2) (subparagraph 66 A).
Par 211 A	Additional Security for Servicing Actions – Requirements Per 7 CFR 766.112(a), if the borrower is delinquent prior to restructuring, the borrower, and all entity members in the case of an entity, must execute and provide to the Agency a lien on all of their assets, except as provided in paragraph (b) (subparagraph 211 C) of this section, when the Agency is servicing a loan. FSA will take the best lien obtainable on all assets the borrower owns at the time of a primary loan servicing action. If the borrower is an entity, FSA will take the best lien obtainable on all assets owned by the entity and all assets owned by the individual members of the entity. These assets are additional security for the restructured loans and for any FSA-2543 that may be executed according to paragraph 249. An appraisal is not required to take security as a best lien obtainable unless the property will be covered by FSA-2543.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 229 A	State Mediation and Voluntary Meeting of Creditors – Introduction The FSA representative can make no agreement with the borrower that does not comply with FSA regulations or policies. Further, FSA is not obligated by the terms of the mediation agreement if the terms are contrary to Federal statute, regulations, handbooks, notices, or instructions. Per 7 CFR 766.114(a), a borrower who is unable to develop a feasible plan but is otherwise eligible for primary loan servicing may request: (1) State-certified mediation; or This also applies to USDA certified mediation States. (2) Voluntary meeting of creditors when a State does not have a certified mediation program. Per 7 CFR 766.114(b), any negotiation of the Agency's appraisal must be completed before State-certified mediation or voluntary meeting of creditors. Within 15 calendar days of determining that the borrower is ineligible or cannot develop a feasible plan, the authorized agency official will offer the borrower mediation or a voluntary meeting of creditors through FSA-2523 and FSA-2524 or FSA-2521 and FSA-2522, as appropriate.
Par 230 A	Appraisals – Overview of Options to Challenge Appraisals The borrower has 30 calendar days to request an appeal on the appraisal according to 1-APP. FSA will maintain a list of State-certified appraisers. FSA must review any appraisal or review obtained to determine compliance with the requirements of 1-FLP, Part 6. A copy of the appraisal or review will be provided to FSA before any negotiation, reconsideration or appeal hearing.
Par 230 B	Appraisals – Appeal and Negotiation of Appraisals Per 7 CFR 766.115(a), a borrower considered for primary loan servicing who does not agree with the Agency's appraisal of the borrower's assets may: (1) Obtain a technical appraisal review of the Agency's appraisal and provide it at the appeal hearing; (2) Obtain an independent appraisal completed in accordance with § 761.7 as part of the appeals process. The borrower must: (i) Pay for this appraisal; (ii) Choose which appraisal will be used in Agency calculations, if the difference between the two appraisals is 5 percent or less.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 231 B	Additional Servicing Information Applicable to Adverse Decisions – Appeals The borrower has 30 calendar days from the receipt of the notice of adverse decision to request an appeal. The borrower may request an appeal of an appraisal after receiving an adverse decision from FSA. The borrower may not appeal if the appraised value was previously negotiated according to subparagraph 230 B. FSA will handle a borrower's appeal request according to 1-APP.
Par 284 E	Determining Applicant and Property Eligibility – Appraising Homestead Protection Property Per 7 CFR 766.154(e), the Agency will use an appraisal obtained within 6 months from the date of the application for considering homestead protection. If a current appraisal does not exist, the applicant will select an independent real estate appraiser from a list of appraisers approved by the servicing official. FSA pays for the appraisal according to 1-FLP, Part 6.
Par 300 A	Exercising Option to Purchase Homestead Protection Property – Timeframe for Exercising Option Per 7 CFR 766.154(c)(1), the lessee may exercise in writing the purchase option and complete the homestead protection purchase at any time prior to the expiration of the lease provided all lease payments are current. The lessee may exercise the purchase option by completing the repurchase of the homestead protection property within the term of the lease. The lessee must initiate the purchase option by submitting a signed statement to FSA. The option is not exercised until FSA receives the purchase money. If closing extends beyond the term of the lease, the borrower will continue to make lease payments to FSA until the purchase is closed. Failure to exercise the purchase option within the lease period terminates the lessee's rights under the option.
Par 322 B	Processing a Buyout at Current Market Value – Timeframe for Borrower to Pay Buyout Amount Per 7 CFR 766.113(b), after the Agency offers current market value buyout of the loan, the borrower has 90 days from the date of Agency notification to pay that amount. If the borrower exercises the right to an independent appraisal, negotiation of appraisal, reconsideration, mediation, or appeal, the 90-calendar-day time limit will start on the day the borrower receives the final Agency and/or NAD decision.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 343 A	Determining Amount of Shared Appreciation Due – Determining Whether Shared Appreciation Is Due The authorized agency official will obtain a current appraisal of real estate security covered by a shared appreciation agreement if any of the events listed in paragraph 342 occur.
Par 343 C	Determining Amount of Shared Appreciation Due – Calculating Shared Appreciation Per 7 CFR 766.202(a), the value of the real estate security at the time of maturity of the SAA (market value) shall be the appraised value of the security at the highest and best use, less the increase in the value of the security resulting from capital improvements added during the term of the SAA (contributory value). The market value of the real estate security property will be determined based on a current appraisal completed within the previous 12 months in accordance with § 761.7 (1-FLP, Part 6) of this chapter, and subject to the following: (1) Prior to completion of the appraisal, the borrower will identify any capital improvements that have been added to the real estate security since the execution of the SAA. Approximately 6 months before the maturity of the shared appreciation agreement and before the completion of the appraisal, FSA will contact the borrower with FSA-2544 to determine whether any capital improvements have been added to the security during the term of the shared appreciation agreement. (2) The appraisal must specifically identify the contributory value of capital improvements made to the real estate security during the term of the SAA to make deductions for that value. (3) For calculation of shared appreciation recapture, the contributory value of capital improvements added during the term of the SAA will be deducted from the market value of the property. Such capital improvements must also meet at least one of the following criteria: (i) It is the borrower's primary residence. If the new residence is affixed to the real estate security as a replacement for a residence which existed on the security property when the SAA was originally executed, or, the living area square footage of the original residence was expanded, only the value added to the real property by the new or expanded portion of the original residence (if it added value) will be deducted from the market value.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 343 C (continued)	**Example:** At the time of the write-down the contributory value of a house on the property was $60,000. The house was destroyed by fire and replaced with a house that cost $150,000. However, the contributory value of the new house at the time the shared appreciation agreement matured was $170,000 because of appreciation. The value added to the real property in this case is $110,000. ($170,000 value of the new house at maturity – $60,000 value of the old house at the time FSA-2543 was executed.) (ii) It is an improvement to the real estate with a useful life of over one year and is affixed to the property, the following conditions must be met: (A) The item must have been capitalized and not taken as an annual operating expense on the borrower's Federal income tax returns. The borrower must provide copies of appropriate tax returns to verify that capital improvements claimed for shared appreciation recapture reduction are capitalized. (B) If the new item is affixed to the real estate as a replacement for an item that existed on the real estate at the time the SAA was originally executed, only the value added by the new item will be deducted from the market value. The authorized agency official will use Exhibit 26 to calculate the amount of Shared Appreciation due and file a copy of Exhibit 26 in the borrower's case file.
Par 361 A	Events Triggering Recapture – Servicing Existing NRBRA's Per 7 CFR 766.206(a), prior to July 3, 1996, the Agency was authorized to offer borrowers buy out their loans at the net recovery value. A Net Recovery Buyout Agreement was required for borrowers who bought out their loans at the net recovery value. The Agency services existing Net Recovery Buyout Recapture Agreements as described in this section.
Par 363 A	Determining Amount of Recapture Due – Obtaining a Current Appraisal If the former borrower sells or transfers Recapture Agreement security, the authorized agency official will obtain an appraisal of the real estate security as of the date of transfer according to 1-FLP, Part 6 to determine the amount of recapture due. If the former borrower is selling or conveying a portion of the security, the authorized agency official will obtain a current appraisal on only that portion of the security being sold or transferred. FSA may require 1 or more appraisals to determine the amount of recapture that may be due from a partial sale as described in subparagraphs 343 B and 361 B.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 462 C	Voluntary Liquidation of Real Property – Appraisal and Disposition of Collateral Proceeds FSA will appraise the property according to 1-FLP, Part 6 to determine the property's market value only after receipt of a sales contract. Any sale proceeds received by the borrower over and above the FSA-determined * * * market value must be applied to the borrower's FSA debt until the FSA loans secured by the collateral are paid in full. The authorized agency official will apply sale proceeds * * * according to 4-FLP, Part 5.
Par 464 C	Voluntary Liquidation of Chattel – Appraisal FSA will appraise the property according to 1-FLP, Part 6 if the borrower pursues a privatesale. FSA will not generally appraise chattel property to be sold at public auction.
Par 498 B	Additional Requirements – Obtaining an Appraisal The authorized agency official will obtain an appraisal of the property to establish its current market value. The appraisal must be based on the "as is" market value according to 1-FLP, Part 6 and must not include potential deed restrictions or easements FSA may place on the property.
Par 498 F	Additional Requirements – Full Liquidation Per 7 CFR 766.353(b)(2), the borrower conveys all real property securing the Agency loan; and: • The authorized agency official will confirm that the conveyance offer includes all real property securing FSA debts. If the borrower has real property or chattel securing an FSA loan that is not part of the conveyance offer, the authorized agency official must document that the borrower is in the process of liquidating this security by another liquidation method approved by FSA. All borrower sales must be completed before the voluntary conveyance. • The authorized agency official will include in the borrower's case file any appraisal, environmental information, and title search from subparagraphs B, C, and D, respectively. • The authorized agency official will include a statement of the borrower's unpaid FSA debts with a printout from the appropriate ADPS DL or AI screens. Voluntary conveyance documentation must include information on prior and junior liens, as well as judgments, if not included in the conveyance offer.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 533 A	Acceleration Actions – Preparation of the Case File When the borrower meets the conditions for acceleration, the authorized agency official will prepare the case file for acceleration. A State supplement will be issued to describe the required procedures to accelerate FLP accounts, including "chattel only" accounts.
Par 537 E	Acceleration of Loans to American Indians With Real Estate Security on an Indian Reservation – FLM Responsibilities FLM's shall, upon receipt of a request from an American Indian borrower, do the following. • If the borrower requests that the Tribe be assigned the loan, FLM shall notify the Tribe of the borrower's request using Exhibit 55. Notes: The Tribe must notify FSA within 30 calendar days of its intention to accept or deny the borrower's request. The notification to the Tribe shall include a copy of the following: ▪ Current appraisal of the real estate and valuations of all chattel security ▪ Borrower's promissory notes to be assigned ▪ Security instruments ▪ Amount the Tribe would be required to pay FSA for assignment of the loan or loans Note: This amount shall equal the lesser of the market value of all loan security or the principal and interest outstanding on the loan. ▪ A statement that the Tribe may pay for the assignment transaction over a period of time under terms and conditions similar to ITLAP. • If the borrower requests that the Secretary of Interior be assigned the loan, FLM shall refer the request, along with a copy of each of the following, through SED, to the National Office: ▪ Current appraisal of remaining FSA security ▪ Borrower's promissory notes ▪ All security instruments. Notes: FLM shall forward the request and documentation to either of the following:

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 537 E (continued)	For USPS delivery: USDA, FSA, DAFLP, LSPMD STOP 0523 1400 INDEPENDENCE AVE SW WASHINGTON DC 20250-0523 For Federal Express delivery: USDA, FSA, DAFLP, LSPMD 1250 MARYLAND AVE SW STE 500 WASHINGTON DC 20024 Telephone: 202-720-6293. The National Office will work with the National Office of BIA to determine whether the Secretary of Interior will accept the assignment of the loan. FLM shall notify the borrower that the request has been forwarded. FLM shall notify the borrower of the Tribe or Secretary of the Interior's decision as follows. **IF** / **THEN** Decision of the Tribe or the Secretary of Interior is to accept the borrower's loan assignment request / FLM shall notify the borrower using Exhibit 56. Secretary of Interior has accepted the assignment / Borrower's loan will be assigned to the Secretary of Interior pursuant to National Office instructions. Tribe has indicated that it will accept an assignment of the loan and will seek to pay for the transaction over a period of time / FLM shall send the Tribe, for the Tribe to execute within 90 calendar days, FSA-2026 payable to FSA in exchange for the assignment of the loan, as well as any other loan documents required by FSA to finance this debt under rates and terms similar to an ITLAP loan, including an assignment of Tribal income as security for the Tribe's loan. FSA-2026 shall be prepared with the consideration amount as determined under this paragraph and with rates and terms similar to an ITLAP loan. **Note:** All ITLAP servicing options may be applied to these loans, except any write down servicing options.

Regulatory Resources (continued)

Handbook 5-FLP (continued)		
Par 537 E (continued)	**IF**	**THEN**
	Tribe has timely executed and returned the documents described in this paragraph	FLM shall send to the Tribe all original borrower promissory notes and mortgages being assigned, along with any other relevant security instruments. Agency documents provided to the Tribe shall be prepared, endorsed, processed, and delivered pursuant to guidance from the regional OGC.
	Decision of the Tribe or the Secretary of Interior is not to accept the assignment of the loan	FLM shall: • Notify the borrower using Exhibit 57 • Proceed with foreclosure action according to Part 16. **Note:** Failure of the Tribe to respond to a request that the Tribe accepts an assignment of the loan, or to finalize the loan assignment transaction within the time provided in this paragraph, shall be treated as a denial of the request.
	FLM shall keep copies of all letters or documents sent or received in the borrower's loan file.	
Par 602 B	Involuntary Liquidation by a Prior Lienholder – Compiling Information on the Borrower's Account The authorized agency official will compile information on the borrower's account and include it in the borrower's case file according to subparagraph A. For real estate security, the authorized agency official will include: • A current appraisal obtained according to 1-FLP, Part 6 • A report on the borrower's payment of real estate taxes • A report with information on other lienholders and judgments associated with the FSA security. For chattel security, the authorized agency official will include: • A current appraisal obtained according to 1-FLP, Part 6 at the appropriate time • A report with information on other lienholders and judgments associated with the FSA security.	

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 778 A	Sale of Inventory Real Property – Pricing Per 7 CFR 767.153(a): (1) The Agency will advertise property for sale at its current market value, as established by an appraisal obtained in accordance with § 761.7 (1-FLP, Part 6). (2) Property sold by auction or sealed bid will be sold for the best obtainable price. The Agency reserves the right to reject any and all bids. It must be clearly documented that the property received adequate exposure and the reasons why this price represents the best price obtainable. The authorized agency official obtains an appraisal according to 1-FLP, Part 6 if the current appraisal is more than 1 year old. SED will base the decision on the minimum acceptable price on the following criteria: • The length of time the property has been in inventory • Previous marketing efforts • The type of property involved • Market value • Cost to continue holding such as taxes, maintenance and depreciation. The authorized agency official prices inventory property containing environmental risks according to Part 22.
Par 779 B	Conveying Easements, Rights of Way, and Other Interests in Inventory Property – Appraisals Per 7 CFR 767.154(a), the Agency will determine the value of real property and real property interests being transferred in accordance with § 761.7 (1-FLP, Part 6) of this chapter. FSA determines the value of real property and real property interests through an appraisal conducted according to 1-FLP, Part 6.
Par 779 D	Conveying Easements, Rights of Way, and Other Interests in Inventory Property – Disposal of Other Interests in Inventory Property Per 7 CFR 767.154(c)]: (1) If applicable, the Agency will sell mineral and water rights, mineral lease interests, mineral royalty interests, air rights, and agricultural and other lease interests with the surface land except as provided in paragraph (b) (subparagraph 779 C) of this section.

Regulatory Resources (continued)

Handbook 5-FLP (continued)	
Par 779 D (continued)	(2) If the Agency sells the land in separate parcels, any rights or interests that apply to each parcel are included with the sale. (3) The Agency will assign lease or royalty interests not passing by deed to the purchaser at the time of sale. (4) Appraisals of property will reflect the value of such rights, interests, or leases. The authorized agency official notifies the lessee or buyer of the assignment. FSA provides a copy of this notification to the purchaser.
Par 837 A	Environmental Risk Management – General Policy FSA will comply with all applicable Federal and State laws. FSA will consult with the appropriate environmental regulatory authority to determine State requirements. When FSA will advertise the property for sale, the sales price of the property is the "as improved value" as determined by an appraisal. When the property is being sold back to the former owner-borrower, FSA will not undertake corrective action. See paragraphs 838, 839, and 840 for guidance on remediation of specific environmental risks.
Par 838 A	Properties Containing Hazardous Waste A Clean-Up of Hazardous Waste and/or Underground Storage Tank System – Contamination For inventory real properties containing hazardous waste and underground storage tank systems, FSA will ***not*** conduct cleanup or take corrective actions unless: • Any known contamination or underground storage tank leakage presents an immediate threat to the health and safety of neighboring property owners or potential purchasers of the property • FSA is selling the property to a beginning farmer or socially disadvantaged farmer and providing credit assistance through direct or guaranteed loans. Because FSA does not know at the time of the appraisal if the property will be sold to a beginning farmer or socially disadvantaged farmer, FSA must request the appraiser to--* determine both the ***as is*** and ***as improved*** market value of the property.

Regulatory Resources (continued)

Uniform Standards of Professional Appraisal Practice (USPAP)

Standards 1 and 2	Real Property Appraisal Development and Real Property Appraisal, Reporting • Primary guidance for appraisers who do real property (land and improvements) appraisals
Standard 3	Appraisal Review and Development • Guidance for technical appraisal reviews • Partially deals with administrative reviews

Cost (Summation) Approach Job Aid

The cost (summation) approach is used to determine the value of the subject land (using comparable sales) and subject improvements (using "replacement cost new"). There are five key steps involved in completing a detailed analysis for the cost (summation) approach.

1. Determine the value of the subject land from comparable sales.

Key Term/Concept	Description/Explanation
Elements of comparison	The elements of comparison are the characteristics of properties and transactions that cause the prices paid for real estate to vary. These elements of comparison include: • Real property rights conveyed • Financing terms • Conditions of sale • Market conditions • Location • Physical characteristics These elements must be researched and analyzed to determine if any adjustments to these elements are warranted within the market. Each element will be discussed and an adjustment made to the sale toward the characteristics that are evident in the subject.

Valuing the land	The first step in the cost approach – determine the value of the subject land – requires that the following sub-steps are completed:
	
	• Assemble unimproved (bare) land sales
	• Look for "puritans" (i.e., only one land class)
	  – Examples of agricultural classes: soil classes, productivity index ranges, waste (non-productive), timber, bare land
	  – Examples of recreational classes: woods, wetlands, hunting, water
	• Develop soil class ratios
	• Ensure that the **sale** land value is at the time of sale
	• Ensure that the **subject** land value is adjusted to effective date

Cost (Summation) Approach Job Aid (continued)

2. Compute the replacement cost new (RCN) of the subject improvements. (The effective date is used for current building cost.)

Key Term/Concept	Description/Explanation
Replacement cost new (RCN)	Replacement cost new (RCN) is used for computing subject and sale improvements. RCN: • Is the most common cost used for these computations • Constructs new buildings to modern standards with modern methods • Should eliminate the concept of functional obsolescence/ depreciation The "reproduction cost" (i.e., cost of "reproducing" the subject) is rarely used and usually includes functional obsolescence; it is difficult to obtain cost data for such sales. Examples include "unique" buildings (e.g., Amish barn) and historical buildings.

3. Extract depreciation from sales at the "time of sale." (The sale date is used for RCN and land value.)

Key Term/Concept	Description/Explanation
Types of depreciation	Depreciation is a loss in property value from any cause. Three types of depreciation include: • Physical depreciation – Loss in value by wear, tear, age and use (e.g., weather, pests, traffic) – Curable. Consider if the property is curable and the economic feasibility to cure (e.g., paint, roof, repair broken window, replace damaged siding). If the property is deemed incurable, this means that it cannot be corrected, or that doing so is in excess of contribution to value (e.g., cracked foundation, frame damage, sever smoke and/or fire damage) • Functional depreciation/obsolescence – Loss in value from deficiencies in the structure, defects in the design, and/or changes in the industry (e.g., door to small/narrow on machine shed) • External or economic depreciation – Loss in value due to off property influences that are usually incurable and/or you have no fix or solution for (e.g., depressed milk prices, prison in neighborhood)

Cost (Summation) Approach Job Aid (continued)

4. Apply depreciation against subject RCN to obtain "depreciated RCN" or the "contributory value of improvements." (The value of a particular component is measure in terms of its contribution to the value of the whole property.)

Key Term/Concept	Description/Explanation
Depreciation	Depreciation can be applied by lump sum. It is important to use a consistent method from sales to subject. It is common to see three types of depreciation, and it ***must*** be applied in order: 1) physical, 2) functional, 3) external or economic • First determine economic life (EL): – Effective age (EA)* + remaining economic life (REL) = EL – Example: 10 + 30 = 40 * Effective age is based on the judgment of the appraiser; it is usually not the chronological age • Then determine depreciation: – 1/EL = depreciation – Example: 1/40 = 2.5% depreciation • Then determine depreciation for the EL: – Depreciation x EA = depreciation for the EL – Example: 2.5% x 10 = 25%
Compute depreciation of sales	Note that land, RCN, and depreciation all need to be figured/ determined at time of sale. • Sale price – land = contributory value of improvements (or CV of improvements) • RCN – CV of improvements = accrued depreciation • Accrued depreciation should be broken down into physical, functional, and external/economic • (Total depreciation – external and functional depreciation) / EA = yearly physical depreciation

Cost (Summation) Approach Job Aid (continued)

5. Add land value and depreciated RCN value for cost approach value

Key Term/Concept	Description/Explanation
Cost approach value	After completing detailed analysis: CV of improvements + vacant land value = cost approach opinion of value. Example: $665,440 (RCN) – $367,994 (accrued depreciation) = $297, 446 (CV of improvements) **$297,446 (CV of improvements)** **+ <u>$444,000</u> (vacant land value)** **$741,446**

For additional information on this approach, contact your supervisor/mentor.

Sales Comparison (Market Data) Approach Job Aid

The sales comparison (market data) approach is used to determine a value based on comparable sales derived from the market. There are eight key steps involved in completing a detailed analysis for the sales comparison (market data) approach.

1. Collect comparable sales.
2. Verify all sales and the information/data regarding these sales.
3. Classify the comparable sales into improved and unimproved.
4. Identify "puritan" unimproved sales (i.e., only one land class).
5. Compare sales to sales in order to make adjustments.
6. Appraise land under improved sales to derive improvement value.
7. Compare sales to subject.
8. Use a sales grid for an indication for the subject.

The following are some key terms and concepts that an appraiser must understand in order to use the sales comparison (market data) approach. These terms and concepts are helpful for reviewers to understand as well, in order to determine if the appraiser used the approach properly and accurately.

Key Term/Concept	Description/Explanation
Elements of comparison	The elements of comparison are the characteristics of properties and transactions that cause the prices paid for real estate to vary. These elements of comparison include: • Real property rights conveyed • Financing terms • Conditions of sale • Market conditions • Location • Physical characteristics These elements must be researched and analyzed to determine if any adjustments to these elements are warranted within the market. Each element will be discussed and an adjustment made to the sale toward the characteristics that are evident in the subject.
Sales selection	In order to make selections for the sales comparison approach, appraisers must research the market to obtain information about transactions, listings, and other offerings that are similar to the subject property. Appraisers must select and develop comparable sales that have the closest attributes to the subject property in order to minimize adjustments.

Sales Comparison (Market Data) Approach Job Aid (continued)

Key Term/Concept	Description/Explanation
Contributory value of land classes	When analyzing sales to derive a land adjustment, the appraiser must remember that it may encompass all characteristics of the land, including productivity, topography, open land versus wooded land, and other characteristics. If the appraiser is working on an area where there is typically only one land class of land, a productivity or land quality adjustment may adequately reflect the degree of comparability between the land component of a sale and the subject property. An accepted technique for estimating the contributory value of multiple land characteristics is land class ratio analysis.
Land allocation analysis	To develop a land allocation (or class ratio) analysis, the first step is to place all unimproved sales in a summary format which reflects their total sale price, date of sale, overall size, and sale price per acre as well as the acreage distribution among the predominant land classes recognized in that market. The land classes specified may be: • Class 1 cropland versus Class 2, 3, and/or 4 cropland • Open land versus wooded land • Cultivated land versus pasture • Good rangeland versus poor rangeland • Any other observable land classifications recognized in the market where the subject property is located. The unimproved sales are then analyzed, and a land class ratio is developed, which identifies the differences in value among the different land classes of the comparable properties. Those land values are then translated back to the land classes of the subject property.
Time adjustment	Time adjustments are made when there is evidence to support that the land values have changed over time. The best way to ascertain if there have been movements in the market is to obtain comparable properties that have multiple sales in the recent past. The difference in value between the two sales will demonstrate which direction the market has been moving (+ or -) and is calculated in monthly changes. The method to determine the amount is with a business/ financial calculator; the first sale represents present value, and the second sale represents future value. The number of months represents the period, and the problem to be solved is the rate. The rate represents the percent per month change in the market. Once the rate has been established, it can be applied to the difference in time between each comparable sale and the effective date of the report.

Sales Comparison (Market Data) Approach Job Aid (continued)

Key Term/Concept	Description/Explanation
Land and building adjustment	Land and building adjustments are made to the comparable sales to adjust them to the subject. Land should be done first, then buildings. All adjustments must be: • Supported by the market • Applied consistently • Explained well
Quantitative Analysis – Sales Comparison Technique	This is the technique that is usually used in appraisal reports and it provides adequate data for the appraisal. It involves paired sales analysis, statistical and graphic analysis, and trend analysis.
Qualitative Analysis – Sales Comparison Technique	This technique is an unusual one to use for agricultural or residential properties. For this technique appraiser judgment is paramount. It may be used when there is an extreme lack of data, there are no or minimal comparable sales, and/or the market is very erratic.

For additional information on this approach, contact your supervisor/mentor.

Income (Capitalization) Approach Job Aid

The income (capitalization) approach is used to determine a value that supports income and expenses (i.e., providing support for rents, expenses, and capitalization rates). This approach allows an appraiser to measure the present value of future benefits. The analysis for this approach is done at the "time of sale." There are nine key steps involved in completing a detailed analysis for the income (capitalization) approach.

6. Collect sales.
7. Verify all sales and the information/data regarding these sales.
8. Classify the comparable sales into improved and unimproved.
9. Compute cap rates for similar sales.
10. Analyze and compute rents – vacancy rate [percentage estimate that the rental will be vacant]***** and other income.
11. Analyze and compute expenses.
12. Compute net operating income (NOI); NOI = income – expenses.
13. Select cap rate based on similarities.
14. Compute value; subject NOI / selected cap rate = subject value.

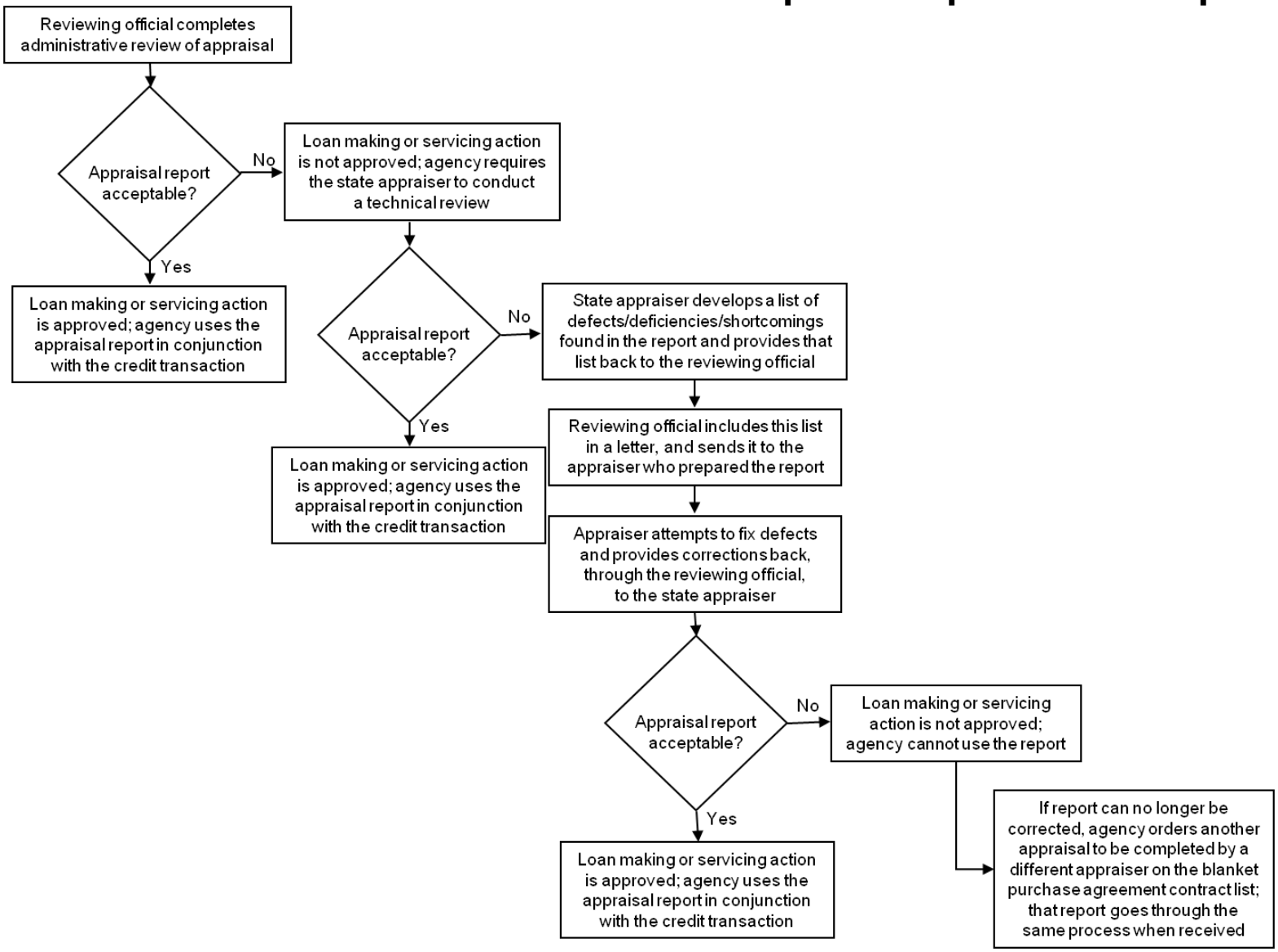
***** Rents – vacancy rate is referred to as Effective Gross Income.

The following are some key terms and concepts that an appraiser must understand in order to use the income (capitalization) approach. These terms and concepts are helpful for reviewers to understand as well, in order to determine if the appraiser used the approach properly and accurately.

Key Term/Concept	Description/Explanation
Direct income capitalization technique	This technique: • Is the most commonly used for the income (capitalization) approach. • Assumes a relatively stable market. • Capitalizes 1 year worth of income into perpetuity.
Rents	Rents are derived from market data; the appraiser must get to know the area, farm plans, and lease data.
Expenses	Expenses are derived from the market area; the appraiser must use consistent application if the expenses are estimated.
Net operating income (NOI)	NOI is derived from rental and/or other income minus expenses (i.e., rental and/or other income – expenses = NOI).
Cap rates	Cap rates are derived from the market

For additional information on this approach, contact your supervisor/mentor.

Process Flowchart: Report Acceptable-Unacceptable



Common Appraisal Report Discrepancies

Some of the common discrepancies found in appraisal reports include:

- Wrong name; report lists the seller's name as the FSA client-applicant.
- Wrong county office listed as the user.
- Wrong legal address/location. This is typically a typographical error but it must be corrected.
- Wrong property appraised. Applicant and seller provided the wrong legal address/ location, so the wrong property was appraised. When we have to reorder an appraisal (for the correct legal address/location), we often end up spending two times what we should be for the appraisal.
- Math wrong. These types of errors are typically found in narrative reports where the appraiser does his or her own math. Most form reports have correct math formulas.
- Appraisal attachment states that no other adjustments are needed, but then lists another adjustment. All statements must be consistent.
- Mineral rights statement not included.
- Engagement letter or appraisal request form not included in the report. This is required by USPAP to be included.
- Sales data does not include the book and page of the transfer, as recorded at the county assessor.
- Adjustment incorrect. Land adjustment shown as a negative, but the subject has a higher soil rating. Note: if the subject is superior to the comparable, then the adjustment should be positive; if the comparable is superior to the subject, then the adjustment should be negative.
- Income (capitalization) approach was not included. Remember, the appraiser must clearly state the reasoning/justification for excluding any valuation approach/analysis.
- Appraiser included a building he or she was told not to include in the appraisal report.
- Appraiser includes the wrong license number; uses one from previous year.
- Appraiser forgot to include bank as the intended user.
- Appraiser shows number of acres of the subject differently in different sections and pages of the appraisal report.
- Appraiser does not have enough comparable sales. USPAP states that three sales is the minimum; in some areas, this may be all that is available. Regardless, the appraiser must explain the search for sales data in the scope of work. Considering four or five comparable sales is considered adequate.
- Use of unclosed sales. These are acceptable if they are near closing (within 30 days); if they are not the majority of sales used; and if the appraiser includes sufficient information on who, where, and when the closing will be final.