

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
HARRISBURG, PENNSYLVANIA

TO:
State Office
Area Office
Local Office

STATE PROCEDURE
NOTICE

ISSUE NO. 305
DATE: 10/04/2007

RURAL DEVELOPMENT MANUAL CHANGE

RD Instruction 1980-D and Handbook HB-1-3550

GENERAL: The purpose of this PA PN is to provide a uniform policy on reviews of real estate appraisal reports. The present policy is to conduct all SFH appraisals through the Blanket Purchase Agreement (BPA) with contract appraisers.

REMOVE:

PA PN No. 298 dated November 24, 2006

INSERT:

PA PN No. 305 dated October 4, 2007

IMPLEMENTATION RESPONSIBILITIES:

I. Type of Appraisal Reviews: There are three types of reviews for real estate appraisal reports: Administrative Reviews, Technical Desk Reviews, and Technical Field Reviews. A brief description and the implementation responsibilities of these are as follows:

A. Single Family Housing (SFH) - Direct, Insured and Guaranteed: (Procedure reference 1980-D and Handbook HB-1-3550)

- 1. Administrative Reviews:** This type of review will be completed on ALL SFH real estate appraisals for loan underwriting and servicing purposes. The administrative review will be performed by the Loan Approval Official within 7 days of receipt of the appraisal report, but always PRIOR to loan approval. In the case of Servicing/ Foreclosure actions, the official ordering the appraisal having loan approval authority will perform the administrative review. Send the original of each administrative review (Form RD 1922-15, Administrative Appraisal Review For Single Family Housing) along with the appraisal report to the Rural Development appraiser for that area.

When problems are detected for SFH Direct Loans or Servicing actions, during the administrative review, the reviewer will coordinate with the BPA appraiser to make appropriate changes. Only when significant revisions are necessary and RD staff appraiser review is required, the reviewer should request a technical review to be completed by the RD appraiser. This review should be completed within 7 days of the receipt of request and must be completed prior to sign off on the invoice for payment.

For SFH Guaranteed Loans, originals of the administrative review shall be sent to the appraisal staff, on a monthly basis. The original of the appraisal report or legible copy should be sent only for randomly selected specific projects requested by the appraisal staff or by the Housing Program Director. A copy of the completed Form RD 1922-15 shall be sent to the Housing Program Director.

When problems are detected for SFH Guaranteed Loans during the administrative, technical, or field reviews, professional courtesies, including the Agency's desire to maintain good public relations with the Lender, requires that the Loan Approval Official clearly communicates serious major appraisal deficiencies to the Lender. These deficiencies would consist of items which could affect the loan security, appraisals which do not support the value conclusion, or unacceptable property conditions.

Rural Development Instruction 1980-D, Paragraph 1980.334 requires that the Lender correct or complete any appraisal returned by RD for corrective action.

It is the Lender's responsibility for communicating and initiating corrective action with the appraiser. Failure to correct serious major appraisal deficiencies could result in a determination by the State Director, that the Lender will no longer use an appraiser, submitting appraisals which do not meet the requirements of RD Instruction 1980-D or USPAP.

Incidences of non-compliance, with either RD Instruction 1980-D or USPAP, must be fully documented by the reviewer in a report format, addressed to the Loan Approval Official, with copies to the Housing Program Director and the Program Support Director.

Administrative Reviews are required on every appraisal report used for SFH loans, (Direct, Insured and Guaranteed), grants, or servicing. (Note: When comparable properties are scarce, it may be justified to use one Rural Development financed SFH property as a comparable.)

2. **Technical Desk Reviews:** These are desk reviews, which analyze the appraisal report to assure compliance with USPAP, performed by the Rural Development appraiser. The required number of appraisal reviews is specified per program. A copy of the review will be attached to the copy of the appraisal report, which is retained by the Rural Development appraiser. Copy will not be filed in the case file.

Technical Desk Reviews are required on the initial appraisal completed for Rural Development by a USDA Blanket Purchase Agreement (BPA) contract appraiser. Guaranteed lender's appraisals will be reviewed as discussed hereafter, under 'Criteria for Additional Reviews for SFH'. Follow USPAP Standard 3 Review requirements. Use Form 1922-14, Residential Appraisal Review for Single Family Housing, Part A when required.

3. **Technical Field Reviews:** These reviews will be conducted by the appraisal staff in the field on the number of appraisals specified per program or when determined or required by the reviewer. A copy will be attached to the appraisal report, which is retained by the Rural Development appraiser. Copy will not be filed in the case file.

Technical Field Reviews are required on at least one appraisal per USDA BPA contract/fee appraiser in a three year period. Additional field reviews will be completed when the technical desk reviewer determines that one is needed. Follow USPAP Standard 3 Review requirements. Use Form 1922-14, Part B when required.

A field review will be performed for each appraisal appeal, prior to the appeal hearing.

B. Multi-Family Housing (MFH) - Direct and Guaranteed: (Procedure reference 7 CFR Part 3560, Subpart P, and Chapter 7 of HB-1-3560 and HB-1-3565 Chapter 3, Section 3.28)

- 1. Administrative Reviews:** Not required for MFH.
- 2. Technical Desk Reviews:** Required to be performed by the appraisal staff (must be a State Certified General Appraiser) on every MFH appraisal performed by a contract appraiser.
- 3. Technical Field Reviews:** Will be completed when the technical reviewer determines that a field review is needed.

C. Other Programs – Business and Cooperative Programs and Community Facilities Programs and Utilities Programs: Refer to applicable program regulations. Normally the appraisal is performed by an applicant's or lender's contract appraiser. The Program Director will request additional review by RD appraiser, if it is determined to be necessary based on administrative/technical review by the program personnel.

II. Criteria for Additional Reviews: The RD appraisers will conduct additional technical and field reviews, based on the following criteria:

- A.** For SFH Direct Loans: Each fiscal year the RD appraisers will randomly select and review at least 5% (minimum 1) of the appraisals performed in each county by each BPA contract appraiser.
- B.** For SFH Guaranteed Loans: RD appraiser will make random selection of at least 5% of the appraisals from the administrative review reports received each month for the technical review. The random selection should be evenly distributed among the various Area Offices and the State Office that process the guaranteed loan applications. Field reviews will be completed when the technical desk reviewer determines that one is needed. At least one technical field review will be performed each fiscal year for each guaranteed lender. Additional reviews will be performed on appraisals as requested by the Housing Program Director, based on history of unsatisfactory losses and delinquency rates. Copies of the appraisal will be requested from the State Office Housing Program Staff before the 5th of each month. Housing Program Staff will send the requested documents before the 15th and the RD appraiser will complete the reviews before the 30th of each month.
- C.** A technical review may be requested by Field staff when significant problems resulting in an appraisal which does not support the value conclusion is detected on the administrative review documented on Form RD 1922-15.

III. Forms/Format for Appraisal Reports and Appraisal Reviews: The appraisal report should conform to the most recent revision of "Uniform Standards of Professional Appraisal Practice" (USPAP). The new Fannie Mae and Freddie Mac appraisal forms are acceptable for both the Direct and Guaranteed Loan Programs.

- A. Single Family Housing (Direct and Guaranteed):** The new forms (FNMA 1004/FHLMC Form 70) address the repairs that must be completed in order for the property to be acceptable under the Guaranteed Loan Program.
- B. Multi-Family Housing (MFH):** Narrative appraisals are preferable to the form appraisals. Rural Development Handbook HB-1-3560, Chapter 7 for Direct Loans and RD Handbook HB-1-3565, Chapter 3 for Guaranteed Loans, including the attachments, are the references for MFH appraisal requirements. When Form RD 1922-7, "Appraisal Report for Multi-Unit Housing," or other equivalent FNMA forms are used, additions should be made to these forms or attach addenda to conform to USPAP.
- C. Technical Appraisal Reviews:** When conducting technical reviews, using the Appraisal Review Report Forms RD 1922-13 (MFH Review Report Form) and RD 1922-14 (SFH Review Report Form), information must be added to comply with Standard 3 of USPAP. For MFH appraisal reviews, any other review report form that complies with Standard 3 is also acceptable.

IV. Electronic Version of Appraisal Document: Electronic version of appraisal reports will be accepted in lieu of the paper reports, subject to meeting the following requirements:

- A.** Appraisal Report is submitted in PDF format, with electronic signature.
- B.** Photographs to be attached are in color and digital format.
- C.** The electronic report includes the addenda. Addenda can be included using scanner.

V. Filing of Appraisal Reports and Reviews: Appraisal Review Reports/Sheets shall be filed or electronically stored specifically marked as "**intra-agency document**", in a folder titled "Appraisal Review Sheets", next to the appraisal report at specific positions required by each program regulation/checklist. An entry should be made in the running case record that the appraisal technical review was completed. No other copies are necessary.

Copies of appraisal technical reviews will not be filed in the case file. Agency can withhold this information (intra-agency document) pursuant to exemptions under the Freedom of Information Act (FOIA), 5 U.S.C. 552(b).

VI. Release of Appraisal Reports: Appraisal reports (**NO REVIEW SHEETS**) may be normally released to the applicant. It will not be released to a third party, until after consultation with the Freedom of Information Officer (FOIO) in compliance with RD Instruction 2018-F.

Rural Development Handbook HB-1-3560, Chapter 7, Section 7.14 addresses the procedure for the release of Multi-Family Housing Appraisals to Applicants/Owners. **Appraisal Review Reports will not be released**, pursuant to Exemption 2 under the FOIA, 5 U.S.C. 552(b) (2) as testing material.

VII. Ordering Appraisals and Intended Use of the Appraisal Reports: For SFH direct loans, the appraisals are normally ordered by the Agency; and the appraisal work is performed under the BPA by a contract appraiser certified in the State where the property is located. For direct loans such as MFH Section 514, Section 515, third-party appraisals may be used by the Agency. Rural Development may use appraisals for which it did not contract, including those obtained by participating lending institutions, state or local housing authorities, owners or applicants. The Agency reviewer should be especially diligent in reviewing these appraisals to ensure they meet USPAP and Agency appraisal requirements.

For guaranteed loans, the Lender is normally a federally regulated institution involved in a "federally related transaction". For guaranteed loans, such as SFH, MFH Section 538, Community Facilities and Business Programs, the Lender must order the appraisal directly, if the Lender is a federally insured depository institution. Normally, all banking institutions are federally insured depository institutions. Therefore, the guaranteed loan is a "federally related transaction." The Federal Financial Institution Regulatory Agencies regulate the Lender, as required by FIRREA; and require the Lender to order the appraisal directly. It cannot use an appraisal ordered by the owner of the property that is used as security for the loan.

Ideally, appraisal reports used for Agency financing should identify Rural Development as an "intended user" of the appraisal. However, if the Agency is not identified as an "intended user," a revision to identify the Agency as an "intended user" should not be requested, according to Advisory Opinion 26 (AO-26) of USPAP. The appraisal may still be used by the Agency, if it otherwise complies with USPAP and Agency appraisal requirements. If there are other statements restricting the use of the appraisal, the Agency Administrative Reviewer should discuss it with RD staff appraisers.