

ATTACHMENT 7-C

SPECIFIC VALUE TYPES TO BE REQUESTED AND REPORTED BASED ON THE INTENDED USE OF THE APPRAISAL

Value types that should be requested in an appraisal Statement of Work (SOW) and reported in an Agency Multi-Family Housing appraisal are specific to the loan-making, loan-servicing, preservation, or disposition decision(s) for which the appraisal is ordered. In other words, the intended use of the appraisal determines the value type(s) to be requested and reported. Depending on the decision(s) to be made, several value types may be required in one appraisal, including the separate values of different types of favorable financing. Specific value types that should typically be requested for each intended use, as they might be stated in the appraisal, are listed under each category. Some of the listed value types may not be required, depending on the needs of the State Office. The State Contracting Officer and Contracting Officer's Representative (COR) should use this guidance in determining which value types to request in the appraisal SOW and Request for Quote (RFQ). The State Appraiser or contract appraiser must follow this guidance when reporting values in the appraisal. The State Appraiser, when reviewing a contracted appraisal, should require the report to be consistent with this guidance.

The value types listed under each intended use described below are required by Rural Development in appraisals used by the Agency. It is the contract appraiser's responsibility to ensure compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and when Rural Development is partnering with other lender(s), they must ensure compliance with all applicable appraisal guidelines for each funding source. This is a requirement of the Competency Rule and the Scope of Work Rule in USPAP. If Rural Development is provided written authorization from the borrower, and is included as a co-client and intended user of the report, information can be provided from Agency records to assist the appraiser in providing a credible analysis. It is expected that the borrower/applicant has properly notified Rural Development of their intent as required by 7 CFR Part 3560. Ultimately, the applicant/borrower has control over the anticipated funding sources and should be able to assist the contract appraiser with the appraisal requirements according to the anticipated funding sources.

This guidance does not require an appraisal when it is not otherwise needed and does not restrict Rural Development from requesting additional values if a need for analysis, or for any other purpose, is determined or requested.

On the following pages the user of this guidance will find;

- General Guidance for Rural Development Appraisals.
- Quick Reference of Values to Request.
- Specific appraisal guidance for each value as shown in the Quick Reference of Values to Request which can be used in the SOW.

GENERAL GUIDANCE FOR RURAL DEVELOPMENT APPRAISALS

- Rural Development typically uses only Three (3) Value Types:
 1. **Market Value** (7 CFR Part 3560.752(b)(1)(ii).
 2. **Market Value, subject to restricted rents** (7 CFR Part 3560.752(b)(1)(i), (The appraiser must consider all restrictions and report the value of intangible assets individually and separately from the real estate)
 3. **Liquidation Value** (has a shortened marketing period defined by the client, i.e. 30 days, 3 months, etc.).
- *The value types listed above are based on a current time frame. Rural Development also uses a “Prospective Value”, which uses the same definition as the valuations stated above, but based on a specified future date such as “Prospective Market Value” and “Prospective Market Value, Subject To Restricted Rents”. Prospective Values are typically used when construction or improvements to the property need to be considered in the value.**
- The user of this guidance should be familiar with 7 CFR Part 3560 along with all applicable Handbooks. The information contained within is used to help apply the CFR, not replace it. They also need to know the purpose of the appraisal (new loan, determine equity, etc.). The appraiser should only use the value terminology as stated in 7 CFR Part 3560 (and emphasized in this guidance), other values would not be consistent in applying the regulations and may result in an inappropriate value.
 - In a ‘Market Value’ appraisal, unless specifically requested to use a hypothetical condition to provide a credible appraisal for the intended use, the appraiser needs to analyze the Highest and Best Use of the property using four criteria; physically possible, legally permissible, financially feasible and maximally productive. The appraiser must consider all legal restrictions or prohibitions including, but not limited to; restricted use provisions, program restrictions, zoning and local ordinances.
 - Using the hypothetical condition “as unsubsidized conventional housing” according to 7 CFR Part 3560.656(c)(1)(i) means when the appraiser develops their Highest and Best Use analysis they will not recognize any Rural Development restrictions or subsidies and must only consider the property as continued use as housing (apartments, condos, elderly, labor housing, etc.). They must still consider all other legal restrictions or benefits that apply to the property. If the appraiser determines that subsidies from other sources provide the highest and best use of the property this hypothetical condition according to 7 CFR Part 3560.656(c)(1)(i) does not restrict that use.
 - When the value is "Subject To Restricted Rents" the appraiser must consider all restrictions and report the value of intangible assets (financing, tax credits, grants, etc.) individually and separately from the real estate in accordance with 7 CFR Part 3560.752 (b)(1)(i). Since intangible assets are nonphysical assets and not real estate the appraiser should never add the value of the intangible assets

to the value of the real estate. Any investment values that add intangible assets or cash to the real estate value will not be accepted. The Security value should only be calculated by the Agency underwriter.

- An extraordinary assumption should only be used to determine value when requesting a Prospective Value, since this is a forecast of future value. A hypothetical condition should only be used to determine value when the property qualifies for an Incentives Offers according to 7 CFR Part 3560.656. An extraordinary assumption or hypothetical condition may also be used to analyze the affects that any required changes have on a property.
- All hypothetical conditions and extraordinary assumptions must be labeled as such and must be clear and conspicuous to the reader of the report.
- Every appraisal should be done on the subject in its 'Current Physical Condition' except 'Prospective' values which usually includes construction and should be based on the estimated date that construction would be completed and occupancy stabilized.
- Intangible assets are nonphysical assets, as distinguished from physical assets such as facilities and equipment. They include rights over real property, but not rights of use and possession. In subsidized housing they include, but are not limited to, interest credit subsidies, and low-interest loans from other sources, tax-exempt bond financing, tax credits, and grants.
- Security value means the value of an asset deposited or pledged as a guarantee of the payment or fulfillment of an obligation or debt. Security value as utilized by the Agency is an underwriter's tool to assist them in the collateral requirements of a loan. The real estate value, personal property value and the intangible assets value should always be reported individually and separately in an appraisal report. The Security value does not always include every intangible asset. The underwriter must determine which intangible assets are considered in the Security value.
- This guidance should not restrict Rural Development from requesting additional values if a need for additional analysis or for any other purpose is determined or requested.
- For example, in many cases, for transfers, prepayments, rehab, etc., in utilizing "QUICK VIEW OF VALUES TO REQUEST" you should ask a few questions;
 - (1) Does the property qualify for an Incentives Offer within 7 CFR Part 3560.656? Request value of property under # 3 or #4 based on the answer.
 - (2) Is there an existing loan? Do we need to know the current security position of the property? Request the value under #2.
 - (3) Is RD or others providing a new or subsequent loan that is using the property as security? Request the values under #1.Other questions may apply and should be determined by asking;
"Why do we need the value?"

QUICK REFERENCE OF VALUES TO REQUEST

1: NEW OR SUBSEQUENT LOAN (By Rural Development or others)

- New construction
- Rehab/repair construction

REQUEST:

“Prospective Market Value, Subject To Restricted Rents within 7 CFR Part 3560.752(b)(1)(i)”. (The appraiser must consider all restrictions and report the value of intangible assets individually and separately from the real estate.)

“Prospective Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Conventional Housing”. (Optional value used to analyze the affects of restrictions)

2: EXISTING LOAN

- Transfer
- Loan assumption
- Loan write-down
- Subordination

REQUEST:

“Market Value, Subject To Restricted Rents within 7 CFR Part 3560.752(b)(1)(i)”. (The appraiser must consider all restrictions and report the value of intangible assets individually and separately from the real estate).

3: VALUE OF PROPERTY (Does NOT qualify for Prepayment Incentives Offers within 7 CFR Part 3560.656 Incentives Offers).

- Validation of sale/marketing price
- Equity determination
- Acquisition of property into program

REQUEST:

“Market Value, within 7 CFR Part 3560.752(b)(1)(ii)”. (All restrictions and prohibitions currently existing must be considered, including Restrictive Use Provisions).

4: VALUE OF PROPERTY (Qualifies for Prepayment Incentives Offers within 7 CFR Part 3560.656 Incentives Offers).

- Validation of sale/marketing price
- Equity determination

REQUEST:

“Market value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Unsubsidized Conventional Housing in compliance with 7 CFR Part 3560.656(c)(1)(i)”. (In order to use this value the property must qualify for a prepayment incentives offer within the Code of Federal Regulations).

5: VALUE FOR SALE - ELIGIBLE AS PROGRAM PROPERTY

- Maintain in program, REO's, foreclosure, etc.

REQUEST:

“Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Conventional Housing”.

“Market Value, Subject To Restricted Rents within 7 CFR Part 3560.752(b)(1)(i)”. (The appraiser must consider all restrictions and report the value of intangible assets individually and separately from the real estate).

6: VALUE FOR SALE - NON PROGRAM PROPERTY

- Properties leaving program, REO's, etc.

REQUEST:

“Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If a Conventional Market Property”.

“Liquidation Value Premised Upon a Marketing Period of (enter days) Days”. (Optional value, market period prescribed by USDA.)

1: NEW OR SUBSEQUENT LOAN (By Rural Development or others)

VALUE REQUIRED FOR:

- New construction
- Rehab/repair construction

APPRAISED VALUE TO REQUEST:

- ***Prospective Market Value, Subject To Restricted Rents within 7 CFR Part 3560.752(b)(1)(i).*** (Must consider any rent limits, rent subsidies, expense abatements, and restrictive-use conditions that will affect the property. All intangible assets must be evaluated individually and separately from real estate.)

AND POSSIBLY:

- ***Prospective Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Conventional Housing.*** (Value estimate will be based upon a highest and best use analysis as-if not encumbered by USDA program provisions.)

SPECIAL NOTES AND INTENDED USE:

- All value conclusions cited in the appraisal must report and label the specific value as cited above in "Appraised Value To Request."
- The intended use of the appraised value "*Prospective Market Value, subject to restricted rents within 7 CFR Part 3560.752(b)(1)(i)*" for a new or subsequent loan is to assist the underwriter with calculating the security value for the basis of a loan or loan guarantee.
- The intended use of the appraised value "*Prospective Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Conventional Housing*" for a new or subsequent loan is for reasonable analysis and comparison as to how the USDA restrictions affect the property. It should not be used as the basis of a loan or loan guarantee.
- "Prospective value" estimates are premised on an extraordinary assumption which presumes as fact uncertain information. An appraiser should only use an extraordinary assumption when it is reasonable to believe that the unknown condition is true. A prospective value for new or rehab construction should be based on an estimated date that construction would be completed and occupancy stabilized.
- When the value is "Subject To Restricted Rents" the appraiser must consider the impact of USDA program participation and report the value of intangible assets (financing, tax credits, grants, etc.) individually and separately from the real estate. Since intangible assets are nonphysical assets and not real estate the appraiser should never add the value of the intangible assets to the value of the real estate. USDA will identify intangible assets to be evaluated and provide information relevant and necessary for the evaluation of the intangible assets.
- All hypothetical conditions and extraordinary assumptions must be labeled as such and must be clear and conspicuous to the reader of the report.

2: EXISTING LOAN

VALUE REQUIRED FOR:

- Transfer
- Loan assumption
- Loan write-down
- Subordination

APPRAISED VALUE TO REQUEST:

- ***Market Value, Subject To Restricted Rents within 7 CFR Part 3560.752(b)(1)(i).*** (Must consider any rent limits, rent subsidies, expense abatements, and restrictive-use conditions that will affect the property. All intangible assets must be evaluated individually and separately from real estate.)

SPECIAL NOTES AND INTENDED USE:

- All value conclusions cited in the appraisal must report and label the specific value as cited above in "Appraised Value To Request."
- The intended use of the appraised value "*Market Value, subject to restricted rents within 7 CFR Part 3560.752(b)(1)(i)*" for an existing loan is to assist the underwriter with calculating the security value to determine if the existing loan is adequately secured.
- When the value is "Subject To Restricted Rents" the appraiser must consider the impact of USDA program participation and report the value of intangible assets (financing, tax credits, grants, etc.) individually and separately from the real estate. Since intangible assets are nonphysical assets and not real estate the appraiser should never add the value of the intangible assets to the value of the real estate. USDA will identify intangible assets to be evaluated and provide information relevant and necessary for the evaluation of the intangible assets.
- The use of a hypothetical (false) condition is not allowed.
- The appraisal is to reflect the value of the property in its current physical condition.
- All hypothetical conditions and extraordinary assumptions must be labeled as such and must be clear and conspicuous to the reader of the report.

3: VALUE OF PROPERTY (Property does NOT qualify for Prepayment Incentives Offers within 7 CFR Part 3560.656 Incentives Offers).

VALUE REQUIRED FOR:

- Validation of sale/marketing price
- Equity determination
- Acquisition of property into program

APPRAISED VALUE TO REQUEST:

- ***Market Value, within 7 CFR Part 3560.752(b)(1)(ii).*** (All existing restrictions and prohibitions must be considered including Restrictive- Use Provisions (RUP's).

SPECIAL NOTES AND INTENDED USE:

- All value conclusions cited in the appraisal must report and label the specific value as cited above in "Appraised Value To Request."
- The intended use of the appraised value "*Market Value within 7 CFR Part 3560.752(b)(1)(ii)*" is to determine the value of the property for sale/purchase and to determine the amount and availability of any equity.
- Equity is determined by the appraised value of the property less all loans and liens against it. It is not determined by a contract price or the individual wants or needs of a specific buyer or seller.
- An analysis of the highest and best use of the property using the four criteria including physically possible, legally permissible, financially feasible and maximally productive is required.
- The use of a hypothetical (false) condition is not allowed.
- The appraisal is to reflect the value of the property in its current physical condition.
- All hypothetical conditions and extraordinary assumptions must be labeled as such and must be clear and conspicuous to the reader of the report.



4: VALUE OF PROPERTY (Property qualifies for Prepayment Incentives Offers within 7 CFR Part 3560.656 Incentives Offers. There must be no prepayment prohibitions and RUP's must have expired.)

VALUE REQUIRED FOR:

- Validation of sale/marketing price
- Equity determination

APPRAISED VALUE TO REQUEST:

- ***Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Unsubsidized Conventional Housing in compliance with 7 CFR Part 3560.656(c)(1)(i).***

SPECIAL NOTES AND INTENDED USE:

- All value conclusions cited in the appraisal must report and label the specific value as cited above in "Appraised Value To Request."
- The intended use of the appraised value "*Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Unsubsidized Conventional Housing in compliance with 7 CFR Part 3560.656(c)(1)(i)*" is to determine the value of the property that qualifies for an Incentive Offer within 7 CFR Part 3560.656 for sale/purchase and to determine the amount and availability of any equity.
- Equity is determined by the appraised value of the property less all loans and liens against it. It is not determined by a contract price or the individual wants or needs of a specific buyer or seller.
- Using the hypothetical condition "as unsubsidized conventional housing" according to 7 CFR Part 3560.656(c)(1)(i) means when the appraiser develops their Highest and Best Use analysis they will not recognize any Rural Development restrictions or subsidies and must only consider the property as continued use as housing (apartments, condos, elderly, labor housing, etc.). They must still consider all other legal restrictions or benefits that apply to the property. If the appraiser determines that subsidies from other sources provide the highest and best use of the property this hypothetical condition according to 7 CFR Part 3560.656 (c)(1)(i) does not restrict that use.
- The appraisal is to reflect the value of the property in its current physical condition.
- All hypothetical conditions and extraordinary assumptions must be labeled as such and must be clear and conspicuous to the reader of the report.

5: VALUE FOR SALE - ELIGIBLE AS PROGRAM PROPERTY

VALUE REQUIRED FOR:

- Maintain in program, REO's, foreclosure, etc.

APPRAISED VALUE TO REQUEST:

- ***Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Conventional Housing.*** (Value estimate will be based upon a highest and best use analysis as-if not encumbered by USDA program provisions.)

AND:

- ***Market Value, Subject To Restricted Rents within 7 CFR Part 3560.752(b)(1)(i).*** (Must consider any rent limits, rent subsidies, expense abatements, and restrictive-use conditions that will affect the property. All intangible assets must be evaluated individually and separately from real estate.)

SPECIAL NOTES AND INTENDED USE:

- All value conclusions cited in the appraisal must report and label the specific value as cited above in "Appraised Value To Request."
- The intended use of the appraised value "*Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Conventional Housing*" is to assist in the determination of an acceptable bid or sale price.
- The intended use of the appraised value "*Market Value, Subject To Restricted Rents within 7 CFR Part 3560.752(b)(1)(i)*" is to assist in the determination of an acceptable bid or sale price.
- Unless otherwise directed, all market value appraisals will provide an analysis of the highest and best use of the property using the four criteria including physically possible, legally permissible, financially feasible and maximally productive
- When the value is "Subject To Restricted Rents" the appraiser must consider the impact of program participation and report the value of intangible assets (financing, tax credits, grants, etc.) individually and separately from the real estate. Since intangible assets are nonphysical assets and not real estate the appraiser should never add the value of the intangible assets to the value of the real estate. USDA will identify intangible assets to be evaluated and provide information relevant and necessary for the evaluation of the intangible assets.
- The appraisal is to reflect the value of the property in its current physical condition.
- All hypothetical conditions and extraordinary assumptions must be labeled as such and must be clear and conspicuous to the reader of the report.

6: VALUE FOR SALE - NON PROGRAM PROPERTY

VALUE REQUIRED FOR:

- Properties leaving program, REO's, etc.

APPRAISED VALUE TO REQUEST:

- ***Market Value within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If A Conventional Market Property.*** (Value estimate will be based upon a highest and best use analysis as-if not encumbered by USDA program provisions.)

AND POSSIBLY:

- ***Liquidation Value Premised Upon A Marketing Period of (enter days) Days*** (marketing period prescribed by USDA)

SPECIAL NOTES AND INTENDED USE:

- All value conclusions cited in the appraisal must report and label the specific value as cited above in "Appraised Value To Request."
- The intended use of the appraised value "*Market Value Premised Upon A Hypothetical Condition As-If A Conventional Market Property*" is to assist in the determination of an acceptable bid or sale price
- Unless otherwise directed, all market value appraisals will provide an analysis of the highest and best use of the property using the four criteria including physically possible, legally permissible, financially feasible and maximally productive
- The intended use of the appraised value "*Liquidation Value Premised Upon a Marketing Period of (enter days) Days*" is to assist in the determination of an acceptable bid or sale price.
- Request for ***Liquidation value*** is applicable only if USDA is considering selling within a prescribed time frame which may or may not be the same as the traditional marketing period. USDA staff must determine whether Liquidation Value is required, and supply the appraiser with the prescribed marketing time to be associated with the property liquidation.
- USDA will provide a specific marketing period for a Liquidation Value. If the prescribed marketing period is less than the traditional marketing period as determined by the appraiser, the appraiser will analyze and estimate the value associated with the prescribed marketing period. A prescribed marketing period may result in a value estimate premised upon an extraordinary assumption.
- All hypothetical conditions and extraordinary assumptions must be labeled as such and must be clear and conspicuous to the reader of the report.