



**United States Department of Agriculture
Rural Development
Texas State Office**

Rural Development Texas AN No. 582 (1922-B)

JUN 14 2004

TO: All Offices
USDA Rural Development, Texas

FROM: Bryan Daniel
State Director 
USDA Rural Development, Temple

SUBJECT: New Statement of Work (SOW), Appraisal Information Sheet Attachment to SOW, and Insurable Value Calculation Form

PURPOSE/INTENDED OUTCOME: The purpose of this Texas Administrative Notice (AN) is to provide new forms for USDA Rural Development for multi-family appraisal contracting purposes. The changes are needed and facilitate compliance with RD AN No. 3978 (1922-B) dated May 3, 2004, *Terminology, Value Types, and Procedures Used in Multi-Family Housing Appraisals*.

COMPARISON WITH PREVIOUS AN: There is no previous AN on this subject.

IMPLEMENTATION RESPONSIBILITIES: USDA Rural Development employees will review and process the "Appraisal Information Sheet Attachment to SOW" in the manner described below.

The "Appraisal Information Sheet Attachment to SOW" is to be initiated by the local USDA Rural Development loan official and forwarded to Mike Meehan, Housing Programs Director, for continued processing. Previous request forms will no longer be accepted. When the Housing Programs Director determines that the request timing is appropriate, the appraisal request and documentation will be routed to the State Appraiser for a Request for Quote from Texas approved multi-family appraiser contractors. The State Appraiser will provide a copy of the "Appraisal Information Sheet Attachment to SOW" to the Payment Processing Center to provide the State Appraiser with additional project specific documentation.

You are requested to provide clear, readable copies of the documents requested. PLEASE DO NOT USE STAPLES. The copies should be banded together or clipped to prevent loss or damage. Please do not send the copies braded into a file folder. The State Appraiser will make the necessary copies when all documents are accumulated from all sources.

EXPIRATION DATE:
May 31, 2005

Filing Instruction:
Following RD Instruction 1922-B

101 South Main • Suite 102 • Temple, TX 76501
Phone: (254) 742-9700 • Fax: (254) 742-9709 • TDD: (254) 742-9712 • Web: <http://www.rurdev.usda.gov>

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Failure to provide all information may delay the processing of the appraisal request. If the information is not available in the loan application or borrower's file, it should be requested from the applicant/borrower. Please review the documentation to ensure the information is accurate and complete.

All Texas Rural Development employees who act as a Contracting Officer Representative (COR) should read and understand the attached *Standard Statement of Work (SOW) for Multi-Family Housing Contract Appraisals, Attachment D*. All technical appraisal questions from an appraiser contractor should be directed to Alison Redding, Texas Rural Development State Appraiser, who will act as the Contracting Officer Technical Representative (COTR).

If you have any questions, you may contact Alison Redding, USDA Rural Development State Appraiser, at (254) 742-9791.

Attachments

**STANDARD STATEMENT OF WORK (SOW)
FOR MULTI-FAMILY HOUSING CONTRACT APPRAISALS**

Background: USDA Rural Development provides loans to eligible applicants for multi-family housing properties. In support of this program, Rural Development requires the services of qualified persons or firms to provide appraisals of subsidized multi-family properties. All appraisals must be in compliance with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP) and Rural Housing Service multi-family housing appraisal requirements (supplemental standards), which are set forth in the Statement of Work, RD Instruction 1922-B, and any current pertinent administrative notices. The appraiser should note that there are other agencies within Rural Development with different appraisal needs and requirements.

Professional Qualifications: All Agency multi-family housing appraisals must be written by a State Certified General Appraiser, certified in the State in which the subject property is located. The appraiser must have the specialized knowledge and experience necessary to be competent to appraise subsidized housing. The appraiser must understand the housing programs, value types and definitions, real and intangible property rights, use restrictions, pertinent tax considerations, and methods for valuation of various types of favorable financing involved in the appraisal of subsidized housing.

Request for Quote (RFQ): The Request for Quote (RFQ) will be used to request proposals from appraisers via fax or e-mail and will contain basic property information, services requested, special requirements, and any additional information the appraiser will need to bid appropriately. It is the appraiser's responsibility to understand the scope of the assignment and its requirements. When the appraiser receives the RFQ, he/she is to notify the requesting representative by fax or e-mail within 24 hours 1) that the appraiser is unavailable to bid on the assignment, or 2) with the amount of the fee and the number of calendar days required to complete the assignment.

Contract for Appraisal Services (CAS): Once the appraiser has been selected to complete the assignment, a Rural Development representative will provide a Contract for Appraisal Services (CAS) by fax or e-mail. The CAS form will contain the same information as the RFQ but will also include Rural Development and property contacts as well as the agreed upon fee and due date. Rural Development will also inform the appraiser if he/she has not been awarded the assignment. The required number of copies of the appraisal may vary, and the appraiser must pay attention to the number specified on the CAS, as well as the specific delivery instructions. The CAS will specify to whom the reports are to be addressed and where the reports and invoice should be delivered.

Subcontracting: The appraiser engaged by Rural Development, or a qualified employee or associate of the appraiser, must perform the appraisal and must not subcontract it, or any part of it, to another person without written consent of the Rural Development Contracting Officer.

Post Award Conference: The appraiser must contact the Contracting Officer's Representative (COR), identified in the CAS, to schedule a post-award telephone conference. The COR (usually the State Appraiser) will discuss appraisal requirements with the appraiser and answer questions about the assignment. Furthermore, the COR will be the appraiser's contact with the Agency during the course of the assignment. Again, it is the appraiser's responsibility to understand the scope of the appraisal and its requirements.

Client: The appraiser must understand and agree that USDA Rural Development is the appraiser's client, and all reports must be addressed to USDA Rural Development (and any other intended user specified by the Agency). Any questions related to the form or substance of the assignment will be directed to the COR and will not be directed to the property owner.

Property Contact: The appraiser should call the property contact, identified in the CAS, for gaining access to the property and in most cases for procuring property specific data relevant to the assignment. Appraisal fees or turnaround times should not be discussed with the property contact. The appraiser must notify the COR *immediately* if any of the following occurs: 1) the appraiser cannot gain adequate access to the property, 2) the appraiser does not receive essential property information in a timely manner, 3) the appraiser has previously appraised or is in the process of appraising the property, 4) the appraiser has any other potential conflict of interest with respect to the assignment.

Confidentiality: The appraiser must keep all information and materials furnished by Rural Development, the owner, and/or property contact regarding the subject property confidential, as required by USPAP and the Gramm-Leach-Bliley Act. The appraiser may use such information only in connection with performance of the assignment. The appraiser must agree to prevent the unauthorized disclosure, misuse, or alteration of the confidential information. Any information obtained through public sources is not considered confidential information. Disregard of this privacy requirement will be cause for immediate debarment as a contractor for the federal government.

Nondiscrimination: All appraisals of Section 515 Rural Rental Housing or Section 514/516 Farm Labor Housing properties must comply with the Fair Housing Amendments Act of 1988. According to the Act, it is unlawful for an appraiser to use factors that are discriminatory on the basis of race, color, religion, sex, handicap, familial status, or national origin in the sale, rental, leasing, or financing of housing.

Assumptions, Hypothetical Conditions, and Limiting Conditions: All extraordinary assumptions, hypothetical conditions, and limiting conditions must be clearly described in a single location near the beginning of the report and in appropriate sections of the appraisal. In addition, extraordinary assumptions and hypothetical conditions must be restated wherever the appraiser opines to the final value(s). Extraordinary assumptions and hypothetical conditions also must be discussed with and agreed to by the COR prior to completion of the report. General assumptions and limiting conditions that reduce the normal scope of appraisal due diligence are not allowed.

Potential Environmental Hazards: The appraiser must note any suspected environmental hazards, including issues external to the property that could adversely impact the property's value. Examples of environmental hazards would include damaged asbestos-containing building materials, underground storage tanks, chemical leaks, spills, or staining of ground surfaces, or on-site waste disposal such as sludge, oil, paints, or chemical residues. If the appraiser observes any suspected environmental hazards, he/she must notify the COR immediately and refrain from finalizing aspects of the appraisal that could be impacted until resolution of the issue or until instructed otherwise.

Americans with Disabilities Act (ADA): Appraisers must be familiar with the general provisions of the ADA because subsidized housing is a property type that is likely to be affected. The appraiser must consider what impact (if any) noncompliance with the ADA has on the value of the subject property. Any impact on value must be supported by market evidence.

Appraisal Report Formats: The appraisal type (complete or limited), report type (self-contained, summary, or restricted use), and report format (narrative or form) will be set forth in Rural Development's authorizing CAS. Narrative formats are required for most multi-family appraisals with the level of detail dependent on the scope of work and the requested appraisal type and report type. Form reports completed on Form RD 1922-7, FNMA Form 1050, FHLMC Form 71A, or the Uniform Commercial Industrial Appraisal Report (UCIAR) are generally acceptable, as long as they are modified to meet USPAP and Agency requirements and are agreed upon in advance.

Approaches to Value: The approaches to value (Cost Approach, Sales Comparison Approach, and Income Approach) that are to be included in the appraisal depend on the specific assignment and will be specified in the CAS. When the purpose of the appraisal is to conclude *market value*, all three approaches to value must be included as part of a Complete Appraisal. When the purpose of the appraisal is to conclude *market value, subject to restricted rents*, the Cost Approach and the Income Approach must be included, but the Sales Comparison Approach is typically not applicable and may be excluded. When the purpose of the appraisal is to conclude *value-in-use* of an on-farm labor housing project, only the Cost Approach is applicable, and the other two approaches are excluded. For some assignments, an approach to value that is typically

applicable may not be applicable. When this is the case, the appraiser, upon receiving the RFQ, must discuss this issue with the COR so that the CAS will correctly specify the approaches to value that will be included in the report. If, during the course of the assignment, the appraiser determines that an approach is not applicable, he/she must obtain the approval of the COR to exclude the approach from the report, and the CAS must be modified.

Value Types: The types of value (e.g., *market value* or *market value, subject to restricted rents*) to be reported, including values of various types of favorable financing, will be specified in the CAS. All reports must include the *insurable value* of the subject.

Complete Appraisal Requirements: All RHS Complete Appraisals, Self-Contained or Summary Reports, must comply with the following unless the CAS requires otherwise.

- 1) All appraisal reports must comply with USPAP. Specifically, all reports must include the following items required by Standards 1 and 2 of USPAP:
 - Identification of the appraisal type and report type,
 - Identification of the client and any other intended users of the appraisal,
 - Identification of the intended use of the appraisal,
 - Description of the subject real estate,
 - Identification of the real property interest (property rights) appraised,
 - Identification of the purpose of the appraisal,
 - Identification and definition(s) of the value type(s) reported,
 - Identification of the effective date(s) of the appraisal and the date of the report,
 - Description of the scope of work used to develop the appraisal,
 - Disclosure of all assumptions, hypothetical conditions, and limiting conditions that directly affect the appraisal,
 - Description of the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions,
 - Description of the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal; and (for market value) an analysis of the highest and best use of the real estate,
 - Disclosure of any permitted departures from specific requirements of Standard 1 of USPAP and the reason for excluding any of the usual valuation approaches,
 - A signed certification in accordance with USPAP Standards Rule 2-3.
- 2) All reports must include an executive summary.
- 3) All reports must include a legal description of the subject property.
- 4) All reports must include photographs of the interior and exterior of the subject property and of the exterior of all rent comparables and sales comparables.

- 5) All reports must include the following maps, showing the location of the subject:
 - Regional map
 - City map
 - Flood plain map
 - Land Sales map
 - Sales Comparables map
 - Rent Comparables map
- 6) All reports must include the following exhibits of the subject property:
 - Survey
 - Site plan
 - Floor plans
- 7) All analyses within the Income Approach must be well supported. When the assignment is to conclude *market value, subject to restricted rents*, the subject's 3-year operating history should typically be used as the primary data source to project the subject's other income, vacancy, and operating expenses. A set of expense comparables can be compiled from recent operating statements for similar restricted properties within the subject's housing program. This data can be obtained from Rural Development and used to support these projections. All expense analyses must include a tabulated set of expense comparables and should also include supporting information from an expense survey done by RHS or a State housing authority, if available. The capitalization rate selected for the subject must be derived from the most recent sales of similar properties in the local (or nearest similar) conventional apartment market. Support for this overall rate must be provided using alternate methods such as the band-of- investment technique, the debt coverage formula, and regional investment criteria surveys. If the pro forma income, vacancy, expenses, or capitalization rate is not adequately supported, the Rural Development Review Appraiser will require the contract appraiser to make revisions that provide the necessary support before the appraisal can be accepted.
- 8) Any method that includes the use of note rate rent as potential gross income (PGI) in the Income Approach pro forma to derive a value equal to the sum of the *market value, subject to restricted rents*, plus the value of the interest credit subsidy is not acceptable appraisal practice. Appraisers must not use this procedure in Agency multi-family appraisals.
- 9) All reports must conclude the market rents for the subject's units. A market rent adjustment grid showing quantified adjustments in specific percentages or dollar amounts must be included and be well supported. When the assignment is to conclude *market value, subject to restricted rents*, the market rents of the subject's units must be compared with the restricted rents of the subject's units.
- 10) All reports must include an estimate of the remaining economic life of the subject.
- 11) All reports must include an estimate of the *insurable value* of the subject property.
- 12) All appraisals of existing properties must include a discussion of deferred maintenance at the subject property. Items of deferred maintenance must be listed, and the cost to cure each item must be estimated, with support provided. The final

- value must be calculated by subtracting the total cost estimated to cure all deferred maintenance from the value indicated as if no deferred maintenance existed.
- 13) When favorable financing is involved, the appraisal report must contain a narrative identifying each source of financing. The amount and terms of each type of favorable financing must be described, and each type of favorable financing must be valued separately from the *market value, subject to restricted rents*, of the property. Valuation of "interest credit subsidy" from Section 514/515 loans should be consistent with Attachment E, Guide for Valuation of Interest Credit Subsidy.
 - 14) When the assignment is to conclude *market value, subject to restricted rents*, the subject's operating statements for the preceding three full years and the proposed budget for the current year must be used in the expense analysis and included in the addenda of the report, if available.
 - 15) Appraisals of properties with proposed rehabilitation must include Form RD 1924-13, Estimate and Certification of Actual Cost, in the addenda.
 - 16) A copy of the Contract for Appraisal Services (CAS) must be included in the addenda of the appraisal report.

Review of Appraisal: Appraisal reports are subject to review by Rural Development. Appraisers must be prepared to discuss their analyses, opinions, and conclusions and provide additional written support, clarification, and/or corrected appraisal pages if requested.

Accountability: The engaged appraiser must inspect the subject property and be prepared to discuss the appraisal report. A staff appraiser or associate may participate in the appraisal assignment but must either sign the report or be identified, by name, as having provided significant professional assistance in the appraiser's certification. If a staff appraiser or associate wrote the majority of the report, that staff appraiser or associate may be present during any discussion of the assignment. However, it is the engaged contract appraiser whose work product has been identified as acceptable by Rural Development, and that appraiser must sign the report and be accountable for it.

Defense of Appraisal: The Agency may require the appraiser to defend the appraisal in court or in Rural Development's appeals process. This would constitute a consulting assignment that would be contracted separately from the original appraisal assignment.

Payment of Services: Late delivery of any report may result in liquidated damages. Lacking specific arrangements in writing to the contrary, Rural Development may impose a penalty equal to the lesser of 5% of the appraisal fee per day, or \$100 per day, for each calendar day beyond the scheduled due date. The late fee penalty is based on the calendar days between the due date and the date the appraisal report is received by Rural Development. If delivery of the report is 30 days past due, the appraisal engagement is cancelable by Rural Development, and the appraiser's right to all fees associated with the assignment may be forfeited.

**APPRAISAL INFORMATION SHEET
ATTACHMENT TO SOW**

Property Owner:

Case Number:

Property Name:

Project Number:

Property Address:

Property Description:

Number of buildings (include office, storage, etc.) _____

Number of stories _____

Total Number of Units _____

Family _____ Elderly _____ Congregate _____

Off-Farm Labor Housing _____ On-Farm Labor Housing _____

Number of units by type and size:

# Units	Type	Sq. Ft. Per Unit	Total NRA	Basic	Note Rate	Sec. 8	LIHTC
_____	BR _____ baths	_____	_____	\$ _____	\$ _____	\$ _____	\$ _____
_____	BR _____ baths	_____	_____	\$ _____	\$ _____	\$ _____	\$ _____
_____	BR _____ baths	_____	_____	\$ _____	\$ _____	\$ _____	\$ _____
_____	BR _____ baths	_____	_____	\$ _____	\$ _____	\$ _____	\$ _____
_____	BR _____ baths	_____	_____	\$ _____	\$ _____	\$ _____	\$ _____

Total Net Rentable Area _____

Other Building Area _____

Total Gross Building Area _____

Year of Construction _____

Site Size _____

Amenities:

Rental Assistance: _____ existing number of units _____ total proposed number of units

Utilities (Tenant Based): _____ Electricity _____ Gas _____ Water/Sewer _____ Trash _____
Other _____

(Project Based): _____ Electricity _____ Gas _____ Water/Sewer _____ Trash _____
Other _____

Property Contact (Name & Phone):

Property Type: _____ Section 515 Multi-Family Housing
 _____ Section 8/515 Multi-Family Housing
 _____ Section 514/516 Off-Farm Labor Housing
 _____ Section 514/516 On-Farm Labor Housing

Property Status: _____ Existing
 _____ Program Eligible
 _____ Non-Program Property
 _____ Proposed

Project Financing (if more space is required please attach a list of existing and proposed financing sources with detailed descriptions of amount of financing, loan balance, interest rate, loan term, remaining loan term, amortization period, payment):

Prospective Completion Date: _____

APPRAISAL DATA PACKAGE CHECKLIST TO BE PROVIDED BY THE LOCAL OFFICE (As Applicable):

- ___ Sales contract or purchase agreement
- ___ Legal description
- ___ Rural Development Mortgage or Deed of Trust
- ___ Housing Assistance Payment (HAP) contract (if applicable)
- ___ Description of restrictive use provisions (copy of Loan Agreement attached)
- ___ Environmental report
- ___ Lead-based paint inspection report
- ___ Rural Development unit-by-unit inspection
- ___ Market study
- ___ Prior appraisal
- ___ Survey
- ___ Site plan
- ___ Floor plans
- ___ Description of the property as provided by the project architect
- ___ Recent rent roll
- ___ Tenants waiting list
- ___ Proposed budget for current year
- ___ Operating statements for subject property from previous 3 years
- ___ Operating statements for five expense comparables from last full year (names and addresses of properties deleted; number and size of units included)
- ___ Plans, specs, and cost estimates (new construction)
- ___ Form RD 1924-13, Estimate and Certification of Actual Cost (rehabilitation)
- ___ Sources & Uses Comprehensive Evaluation (SAUCE Report)
- ___ Ownership history for past three years
- ___ Project self-evaluation, transition plan, and estimate to cure non-compliance of architectural barriers for accessibility

INFORMATION TO BE PROVIDED BY THE PAYMENT PROCESSING CENTER:

- _____ M1SI (*Project/Loan-Cost Item – Audit Receivable*)
- _____ M1FI for all loans (*Inquire on Loan*)
- _____ M1LI for all cost items
- _____ M1XI for all loans, all cost items, and 000 (*Accrual Calculation Request*)
- _____ M1BI if borrower has rental assistance (*Inquire on Rental Assistance Obligations*)
- _____ M1UI (*Inquire on Project Characteristics*)
- _____ Summary of transactions on pending
- _____ Project Worksheets for each month from _____ to _____
- _____ Occupancy Trend Report
- _____ Rent Change Summary (*FIN3000 Report*)
- _____ Vacancy Summary
- _____ Budget Summary for past three years (*FIN1700 Report*)

TO BE COMPLETED BY THE STATE APPRAISER

Client: USDA Rural Development, 101 South Main, Suite 102, Temple, Texas 76501

USDA Rural Development Contact: J. Alison Redding, State Appraiser and Contracting Officer's Representative (COR); Phone: 254-742-9791 FAX (254) 742-9708 e-mail alison.redding@tx.usda.gov

Intended Users of Appraisal(s):

- _____ USDA Rural Development
- _____ Texas Department of Housing and Community Affairs (TDHCA)
- _____ The borrower to obtain tax credits and/or for interim financing
- _____ Other leveraged funding sources: _____
- _____ Other leveraged funding sources: _____

- Intended Use of Appraisal(s):** _____ Loan Making (for collateral purposes)
- _____ Loan Servicing Decisions
- _____ Foreclosure
- _____ Disposition of Inventory Property

Purpose of Appraisal(s): To submit supported opinions of the required value(s), in conformity with USPAP and the appraisal policy of USDA Rural Housing Service

- Property Interest Appraised:** _____ fee simple estate, as restricted, subject to short-term leases
- _____ fee simple estate, as conventional or unrestricted, subject to short term leases

Value Types Required: The following values are required:

- Prospective market value, subject to restricted rents, of the fee simple estate, as restricted, subject to short-term leases, as of completion of the construction.
- "As Is" market value, subject to restricted rents, of the fee simple estate, as restricted, subject to short-term leases.
- Value of interest credit subsidy from the USDA Rural Development assumed loan
- Value of interest credit subsidy from the USDA Rural Development new loan
- Value of favorable financing from leveraged funding sources as applicable
- Value of the USDA Rural Development Section 516 grant
- Value of grant funds from _____
- Value of TDHCA Low Income Housing Tax Credits (LIHTC)
- Market value, as conventional or unrestricted, subject to short term leases.
- Liquidation value.
- Insurable value.
- Value in Use (on-farm labor housing only)

Approaches to Value:

- Cost Approach
- Income Approach
- Sales Comparison Approach

Assumptions, hypothetical conditions, and limiting conditions:

Number of Copies: _____

Mail Reports to: One original copy of the required appraisal(s) shall be submitted by e-mail to alison.redding@tx.usda.gov or by hard copy to Alison Redding, USDA Rural Development State Appraiser, at 101 S Main St., Suite 102, Temple, TX 76501

USDA Rural Development				
Insurable Value Calculation				
Property Name:				
Street Address:				
City, County, State, Zip:				
<hr/>				
BASE COST			\$0.00	PSF
Main Structure			\$0.00	
Sprinkler			\$0.00	
Other			\$0.00	
Adjustments and/or Multipliers			0	
TOTAL BASE COST PER SQ. FT			\$0.00	
Building Area Square Footage			0	SF
TOTAL REPLACEMENT COST NEW			\$0.00	
<hr/>				
EXCLUSIONS	<u>Per SF</u>	<u>Percent</u>		
Excavations	\$1.00	0.00%	\$0	
Foundations	\$1.00	0.00%	\$0	
Site Work	\$1.00	0.00%	\$0	
Site Improvements	\$0.00	0.00%	\$0	
Architect's Fees	\$0.00	0.00%	\$0	
Underground Piping	\$0.00	0.00%	\$0	
TOTAL EXCLUSIONS			\$0	
<hr/>				
INCLUSIONS				
Appliance Packages			\$0	
Patios / Balconies, etc.			\$0	
TOTAL INCLUSIONS			\$0	
<hr/>				
CONCLUDED INSURABLE VALUE				
Total Replacement Cost New			\$0	
Less Total Exclusions			\$0	
Plus Total Inclusions			\$0	
CONCLUDED INSURABLE VALUE			\$0	