CHAPTER 8: SECURITY REQUIREMENTS
[7 CFR 3560.60]

8.1 INTRODUCTION

Multi-family housing loans made by the Agency must be secured in a manner that protects the Government's financial interest in the loan. Adequate security means that the borrower has control of the land to be developed, the value of the project provides sufficient collateral for the loan, and, in cases where additional funding has been provided by other sources, the Agency maintains an acceptable lien position.

This chapter describes the requirements that protect the Agency's financial interests and outlines procedures for reviewing applications and appraisals to ensure that the Agency obtains adequate security for multi-family project loans.

8.2 ADDRESSING SECURITY REQUIREMENTS DURING THE ORIGINATION PROCESS

Security requirements are addressed throughout the loan application process.

- During Stage 2, the application provides evidence that the applicant will control the land prior to closing. Also, for projects with participation loans, a participation agreement is negotiated, establishing the Agency's lien position.
- During Stage 3, the security value of the property is established through the appraisal.
- At closing, the borrower must provide clear evidence of control of land and execute documents establishing the Agency's lien on the property.

SECTION 1: SECURITY REQUIREMENTS

8.3 CONTROL OF LAND

To provide adequate security for the loan, a borrower must control the housing and related land. At the time of application, borrowers must provide sufficient evidence that they will have control of the land. Before closing, the borrower must own or hold a leasehold interest to the property.

A. At Time of Application

At the time of application, borrowers must be able to demonstrate that they will have control of land at the time of closing. An application that does not provide adequate evidence of site control will be rejected. Evidence can be provided in one of three forms:

- **Proof of title or a lease interest**. If the borrower already has control of the land, then the options discussed in Paragraph B, below, are acceptable.

- **Purchase or Lease Option**. If the borrower does not yet own the property, an option to purchase or lease the property can be provided as evidence of land control. The option must be for a term long enough to process the loan (generally, at least six months, preferably, a year) and require no renewal or extension fees.

- **Letter of Intent**. If the property is being donated to the borrower, the borrower may provide a letter of intent from the donor stating that the site will be donated to the borrower and that the borrower will assume control prior to closing.

B. At Loan Closing

At loan closing, the applicant must have proof of either the title or the lease interest.

1. Ownership

The borrower must have fee-simple ownership, under which the borrower holds a fully marketable title to the property. This title is evidenced by a deed that vests full interest in the property to the borrower.

2. Lease Interest

The borrower may lease land only if it is not available for purchase (for example, land owned by a nonpublic body, state, political subdivision, public body, public Agency, or American Indian tribal lands) and the following conditions are met:

- A recorded mortgage has been given as security;

- The amount of the loan against the property does not exceed the property's estimated market value;

- The unexpired lease term must be at least 25 percent longer than the repayment term;

- The rent charged under the lease does not exceed the rent paid for similar leases in the area;

- The loan applicant's interest is not subject to summary foreclosure or cancellation; and

- The lease permits the following:

  ◊ The right to foreclose the mortgage and transfer the lease;

  ◊ The Agency to bid at a foreclosure sale and to accept voluntary conveyance of the security in lieu of foreclosure;

  ◊ The Agency to occupy or sublet the property and sell the leasehold for cash or credit if the leasehold is acquired through foreclosure, or if the Agency accepts

voluntary conveyance in lieu of foreclosure, or if the borrower abandons the property; and

◊ The loan applicant, in the event of default or inability to continue with the lease and the loan, to transfer the leasehold, subject to the mortgage, to a transferee that will assume the program debt.

8.4 ADEQUATE SECURITY FOR THE LOAN

To ensure that the value of the project provides adequate collateral for the loan, the Agency requires that the loan be no more than the appraised value of the property or the total allowable development costs minus the borrower's equity in the project.

For further guidance on obtaining and reviewing appraisals, see Section 2.

8.5 LIABILITY

Agency loans to borrowers will establish the borrower's personal liability, except for loans to limited partnerships. Loan processing staff must make sure that the loan agreement includes appropriate language on personal liability.

8.6 ACCEPTABLE LIEN POSITION

The Agency encourages the use of funding and loans from other sources to aid in the financing of multi-family projects. Agency loans provided to projects in conjunction with funding other than the borrower's contribution are referred to as participation loans.

The terms of participation loans must protect the Agency's security in the project. Therefore, when additional sources of funding or financing are used, the Agency will negotiate a participation (or intercreditor) agreement that establishes an acceptable lien position for the Agency. (See Chapter 7 for a full discussion of participation loans and intercreditor agreements.)

A. Acceptable Lien on Property

To protect its interest in the project, the Agency will seek first or parity lien position on the property.

A junior lien position is acceptable only if it is necessary to the project and the Government's financial interests are adequately protected (see Chapter 7, paragraph 7.5 A for additional information). Acceptable circumstances include:

- Projects where loans exist; [In these cases, since, a first lien exists on the property, a second lien is permissible; however, the Loan Originator must make sure that the Agency interest is adequately protected.] and

- Projects involving a public or quasi-public agency that cannot give a mortgage. [In this case, the National Office, in consultation with OGC, will determine what constitutes adequate alternative security.]

B. Acceptable Lien on Project Revenue

Agency will seek first/parity lien on project revenue. Such liens provide that if the project is subject to a servicing action, the Agency has first or parity claim on project rents and other revenue. The Agency's lien position must be specified in the intercreditor agreement.

SECTION 2: ASSESSING THE VALUE OF THE SECURITY — APPRAISALS

8.7 PURPOSE OF THE APPRAISAL

High quality appraisals are key to ensuring that the Agency obtains adequate security for its loans. The appraisal serves two functions.

- The appraisal provides an objective opinion of the value of the property. The appraiser concludes values for the real estate and for each type of subsidy involved. Several types of subsidies, including below-market financing (interest credit), low-income housing tax credits, grants, and project-based rental assistance, add value to a multi-family property. Each type of subsidy should be thoroughly discussed and valued separately in the appraisal. For loan origination, these opinions of value serve as a basis for establishing the collateral's loan value and insurable cost.

- The appraisal also serves to expand on some of the information in the loan application. Factual data contained in the report, such as regional, neighborhood, site, and apartment market data, aids the reviewer in evaluating the feasibility of the project.

Different Types of Appraisals

Appraisals may be used in several situations:

- Loan Origination — for first loans or subsequent loans, new construction, or rehabilitation
- Foreclosure
- Prepayment
- Other special servicing actions such as write-downs

This chapter focuses on appraisals for loan origination. However, the contracting and review of appraisals for foreclosure, prepayment, and servicing actions are similar. For additional details on the use of appraisals in these situations, see the Loan Servicing Handbook.

8.8 REQUIREMENTS FOR APPRAISALS *[7 CFR 3560, Subpart P]*

Appraisals must meet the following requirements.

- **Qualified Appraiser**. The Agency contracts with certified general real estate appraisers to conduct its appraisals. These appraisers must have experience appraising multi-family housing properties. In certain circumstances when an appraiser is not available at an acceptable cost or is unable to complete an appraisal within 45 days, qualified Agency staff may conduct the appraisal. An Agency appraiser must possess the same qualifications as those required for contract fee appraisers. The appraiser must be licensed or certified as a general real estate appraiser, preferably by the state in which the subject property is located, and must have the education, knowledge, and experience necessary to complete the assignment.

- **Standards**. The appraisals should be performed in a manner consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) and Agency appraisal policies and procedures.

- **Nondiscrimination**. The appraiser may not use factors that are discriminatory on the basis of race, color, religion, sex, handicap, familial status, or national origin in conducting the appraisal and valuing the property.

- **Timing**. The appraisal will be ordered once the applicant has been determined eligible and sufficient information has been collected to enable the appraiser to value the property. This should occur during Stage 3 of the Loan Approval process (See Chapter 6).

Appraisal Standards

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established standards for appraisals including:

- **Standards for appraisers.** FIRREA requires mandatory formal training, experience, licensing, and accountability of appraisers.
- **Standards for appraisals.** FIRREA also led to the development of USPAP — uniform standards for appraisals related to Federally Related Transactions.

OMB Bulletin 90-06 required the Agency to "alter its regulations to conform" with FIRREA. OMB Circular A-129, 1993, gives explicit guidance on policies for Federal Credit Programs.

- **Documentation.** The *Form RD 1922-7 Appraisal Report for Multi-Unit Housing* may be used for multi-family project appraisals. Alternative documents, such as multi-family appraisal forms used by Fannie Mae or Freddie Mac, or narrative reports that comply with industry standards, are also acceptable. (See 7 CFR 3560, Subpart P for a list of items that must appear in a narrative.)

8.9 VALUING MULTI-FAMILY HOUSING PROJECTS

The appraiser must specify the intended use of the appraisal and the value basis on which the housing project is being appraised. The appraiser must indicate whether the subject property is being appraised on a "value in use" basis or a "market value" basis and whether the "as is" or "as improved" value is being concluded.

- Appraising the value of a multi-family housing project is similar to valuing a conventional rental property, except that the cash

Appraisals — Some Key Terms

To understand the appraisal process, it helps to understand the terms defined below:

Market Value. The market value of the property is the amount a property could sell for if sold on the conventional market for conventional use.

"Value in Use." A property's value in use is the value of the property used as a subsidized property and subject to program requirements. The value in use incorporates the subsidy value into the overall value of the property.

"Quick Sale" Value. The quick sale value, or liquidation value, is the most probable price that a property will bring when a limited marketing effort and period will be allowed for the sale by a highly motivated seller.

equivalency value of any subsidy (rental, capital, or interest rate) must be accounted for.

- In determining a property's value, the appraiser should address the "highest and best use" of the property (i.e., the most profitable, likely use to which a property can be put)

A. Basic Components of an Appraisal

Multi-family project appraisals typically incorporate three approaches to value, as described below:

- **Cost Approach**. This approach involves valuation of the land, as vacant, and adding the depreciated value of the improvements. Costs of improvements should be estimated using recognized industry data such as Marshall and Swift.

- **Sales Comparison Approach**. This approach, also called the market approach, examines recent sales of comparable properties in the market area to establish a project's value. It is sometimes difficult to use this approach because there may not be any comparable projects in the market area. Appraisers often make adjustments to sales prices of properties that are comparable but not similar. In cases, where the multi-family housing project is the only one in the market area, the appraiser may need to look to other market areas with similar conditions. In some cases, it may not be possible to use this approach.

- **Income Approach**. In this approach, the net operating income projected for the property is directly capitalized into value using an appropriate capitalization rate considered to be representative of the marketplace, or, alternatively, the subject's projected cash flow is discounted to a present value using an appropriate discount rate. For "value in use" appraisals, the value of the real estate is added to the value of the subsidy. In all Agency appraisals, each of these valuation approaches should produce a value indication that is reasonably consistent with the others. Industry convention specifies that the results should not vary more than 10 percent. For Agency multi-family project appraisal purposes, any variance above 10 percent is to have all supporting justification documented.

B. Value of the Subsidy

There are a number of ways to calculate the value of a subsidized property. In all Agency appraisals, each type of subsidy (e.g., interest credit, grants, tax credits, and project-based rental assistance) should be valued separately. One type of subsidy is the interest credit subsidy, which is the below-market financing offered by the Agency. The monthly mortgage payments on an Agency loan offered at a below-market interest rate are lower than the payments on a conventional loan at the market interest rate. The value of the interest credit subsidy can be calculated by subtracting the monthly debt service at the basic interest rate from the monthly payment at the conventional market rate, and

discounting the difference by the conventional market rate over the projected holding period.

Guidance for calculating the value of the interest credit subsidy is presented in **Attachment 8-A**.

8.10 THE APPRAISAL PROCESS — ROLES AND RESPONSIBILITIES

To ensure that appraisals used by the Agency are of consistently high quality, each office should have standard procedures for reviewing appraisals. Several different actors play key roles in this process. These procedures and roles are outlined below. Additional detail is provided in the following paragraphs.

A. The Appraisal Process

The appraisal process involves several steps:

- **Step 1: Request the appraisal.** The Loan Originator requests an appraisal. After an applicant has been determined to be eligible, the Loan Originator should submit to the appraisal staff the information needed to complete the Statement of Work (SOW) for the appraisal. A sample Statement of Work is shown in **Attachment 8-C.** A partial list of data that the Agency is to provide to the appraiser appears in RD Instruction 1922-B, Exhibit C, Part II, Appraisal of Real Estate Security for Rental, Cooperative, and Labor Housing Loans and Grants. Appraisal staff may establish a standard format for collecting this information.

- **Step 2: Select an appraiser.** Appraisal staff, working with the contracting staff, selects an appraiser. In most cases, the Agency relies on contract appraisers to perform appraisals. The process for selecting contract appraisers is described in RD Instruction 1922-B, Exhibit C, Appraisal of Real Estate Security for Rental, Cooperative, and Labor Housing Leans and Grants.

> **Good Practice— Engaging an Appraiser**
>
> The appraiser should be engaged well enough in advance to allow timely completion of the appraisal. Keep in mind that the appraiser will need at least30 days to perform the appraisal and that certain underwriting decisions cannot be made until the appraisal is done. Smart planning and advance notice to appraisers will help the loan approval process work smoothly.

- **Step 3: Discuss the Statement of Work.** A representative of the Contracting Officer (typically the Staff Appraiser or the Loan Originator) will discuss the contract Statement of Work with the contract appraiser and then give permission to proceed with the appraisal.

- **Step 4: Perform the appraisal.** The Appraiser performs the appraisal in accordance with the contract Statement of Work, Agency requirements, and USPAP. The Staff Appraiser should be available to answer questions and provide property contacts and

required data during the course of the appraiser's assignment. The appraiser is required to notify the Agency as soon as possible if the delivery deadline will not be met.

- **Step 5: Review the appraisal.** A Rural Development State designated Appraiser/Reviewer performs a technical review of the appraisal to ensure it is acceptable. A Review Report (see **Attachment 8-E**) is written and filed for every multi-family appraisal review, unless the appraisal was performed by a State designated appraiser.

- **Step 6: Analyze the results of the appraisal.** The Loan Originator analyzes the results of the appraisal. Once the appraisal is deemed acceptable, the Loan Originator can use the results to make the value determinations needed to make a decision regarding the applicant's proposal. Paragraphs 8.13 and 8.14 provide a full description of this analysis.

B. Roles and Responsibilities

The appraisal review system involves staff from the State and National Offices. A description of key staff responsibilities follows. Note that in some offices, roles may overlap. For example, an office may have only one appraiser who serves as the senior appraiser as well as staff appraiser.

- **Loan Originator.** The Loan Originator is responsible for requesting the appraisal and for reviewing its results to make determinations in the loan approval process. The Loan Originator will use the appraisal results to determine the loan amount, the insurance amount, and help decide on the overall feasibility of the project. If the appraisal does not support the applicant's proposal, the Loan Originator will work with the appraiser and the applicant to reconcile the information. (See paragraph 8.8).

- **Senior Appraiser.** The Senior Appraiser is charged with maintaining acceptable appraisal quality within the state. Appraisals must meet industry standards and Agency and USPAP requirements. The Senior Appraiser is appointed by the State Director and should be a certified general real estate appraiser qualified to write and review appraisals of subsidized apartment properties. (See RD Instruction 1922-A, Implementation of the Financial Institutions Reform, Recovery and Enforcement Act [FIRREA], paragraphs 6 and 7). Senior Appraiser duties include the following:

Good Practice — Training Staff and Contract Appraisers

Staff and contract appraisers should receive annual instruction on Agency procedures for property appraisals. Topics to cover in this training include:

- Appraisal report form;
- Agency requirements;
- Special considerations when valuing program properties;
- Valuing the subsidies; and
- Contracting procedures and payment for services.

◊ Oversee the review of appraisals. The Senior Appraiser should supervise the work of staff appraisers and review a sample of the appraisals to ensure the overall quality of work. The Senior Appraiser may conduct both desk and field reviews.

◊ Perform appraisals. The Senior Appraiser will perform appraisals on an as-needed basis when contract appraisers are not available.

◊ Provide program orientation to contract appraisers. The Senior Appraiser must hold occasional orientation sessions to educate contractors and potential contractors about Agency policies and procedures regarding appraisals.

- **Staff Appraiser**. The Staff Appraiser must be properly trained and possess the appropriate education and experience to perform technical appraisal reviews and conduct appraisals as needed. The person should be certified by the state licensing board as a general real estate appraiser or be working toward certification (see RD Instruction 1922-A, Implementation of the Financial Institutions Reform, Recovery and Enforcement Act [FIRREA], paragraphs 6 and 7). Under the supervision of the Senior Appraiser, Staff Appraisers will:

  ◊ Conduct desk and field reviews of contract appraisals for compliance with Agency policy and conformance with USPAP and the statement of work;

  ◊ Manage appraisal contracts; and

  ◊ Conduct appraisals as needed.

- **Contracting Officer.** The Contracting Officer coordinates the contractual arrangements with the contract appraiser, ensuring that the contract and the selection of the contractor meet Agency requirements.

- **National Office**. The National Office may request to review a sample of appraisals on a periodic basis to provide general oversight of the appraisal process. Quality reviews and regular training of State Appraisers by the National Office Review Appraiser will be performed to help ensure consistent procedures nationally.

8.11 SELECTING AN APPRAISER

The Appraiser must be selected following Agency contracting requirements. This may be achieved using a Blanket Purchase Agreement or a request for contract services.

A. Blanket Purchase Agreement

A Blanket Purchase Agreement (BPA) allows the Agency to maintain a list of eligible contractors that can be engaged at any time. Regarding the BPA list of approved appraisers:

- The Contracting Officer should develop a BPA list in accordance with Agency contracting procedures.

- When a contractor is needed, the Staff Appraiser can contact an appraiser on the BPA list. At this time, the Staff Appraiser should:

  ◊ Confirm that the contractor's price for the appraisal is within an acceptable range (based on experience with local costs).

  ◊ Confirm that the appraiser can complete the appraisal within the required timeframe (see paragraph C below).

  ◊ If the appraiser cannot meet these two criteria, contact the next appraiser on this list and repeat the process.

- Once a contractor is selected, the Contracting Officer should arrange a prework meeting with the contractor as described in paragraph 8.6.

- When using the list, appraisal staff make full use of all the names on the list. It is a good practice to rotate through the list to offer different appraisers the chance to perform the contract appraisal each time an appraisal is needed.

B. Request for Contract Services

The Agency may obtain appraisal services through a request for contract services. In this case, contracting staff will solicit bids for services and select the lowest responsive bid in accordance with standard Agency contracting procedures. The Contracting Officer will use the Statement of Work, developed by the appraisal staff as the basis for the bid solicitation and the contract.

Once a contractor is selected, the Contracting Officer should arrange a prework meeting with the contractor as described in paragraph 8.6.

C. Timeframe for Completion and Review of Appraisals

A key criterion for selection of an appraiser is the proposed delivery date. Completion must not exceed 45 days from the date of assignment to the contractor. If the contractor indicates that this timeframe is not acceptable, another contractor or a staff appraiser should conduct the appraisal.

If, for reasons beyond the appraiser's or the Agency's control, the appraisal cannot be completed in that time frame, the Contracting Officer's Representative may grant an extension of up to 30 days.

8.12 WORKING WITH THE APPRAISER

A. Prework Conference with the Appraiser

Before authorizing the contractor to start work, the Contracting Officer's representative should discuss the contract Statement of Work with the appraiser to ensure that the work to be performed is well understood. This may be done by telephone or in a face-to-face meeting. Following the discussion, the Contracting Officer's Representative must provide the appraiser with the following items:

- Appropriate forms. These include *Form RD 1922-7, Appraiser Report for Multi-Unit Housing* (or an industry equivalent), *Form RD 1924-13, Estimate and Certificate of Actual Cost*, and *Form RD 1930-7, Multi-Family Housing Project Budget*.

- Statement of Work. The Statement of Work should include all the information that the appraiser needs to determine the scope of work of the appraisal assignment. This includes information on the purpose and intended use of the appraisal as well as all available property information. See paragraph B below for a complete description of the information included in the Statement of Work.

- Notice to Proceed or Task Order letter. This permits the contractor to begin work on the appraisal.

- The *Appraiser's Guide to Rural Rental Housing*. A copy is provided as **Attachment 8-B**.

Good Practice — Provide Complete Information to the Appraiser.

The appraiser needs a good deal of information on the property to complete a sound appraisal. Agency staff should provide as much of this information as possible as part of the Statement of Work. This includes:

- The project market study
- The legal description of the project
- Surveys, plats, and cost estimates
- The subject's operating statements for the previous three years and projected budget
- Ownership and five-year sales history of the subject

See Paragraph B below for a complete description of items needed.

B. The Statement of Work

The Statement of Work must provide all available information needed by the appraiser to conduct a high quality appraisal. A sample SOW is provided as **Attachment 8-C**. A good SOW will describe:

- **The intended use of the appraisal.** The SOW should describe the multi-family housing program and explain how the Agency intends to use the appraisal. (For example, if the appraisal is for a new project, the SOW should state that the appraisal will be used to establish a loan value and an insurable cost for the property. For a prepayment-related appraisal, it should state that the appraisal will be used to establish a hypothetical market value.)

- **The purpose of the appraisal.** The SOW should clarify the type of information sought in the appraisal. For example, for a new project, it should specify:

  ◊ That the appraisal is for the value in use of the property — i.e., its value as a subsidized property.

  ◊ That the appraised value is based on the highest and best use of the property.

  ◊ Whether the appraisal is for the value of the property "as is" or "as improved".

Appraisals — Additional Useful Terms

"As is" value is the value of the land and any existing structures, as they stand (i.e., the value of the property as it is).

"As improved" value is the value of the land and any proposed new construction or rehabilitated structures (i.e., the prospective value of the property after the improvements are made).

- **Required submissions.** The statement of work should specify the format of the appraisal, the number of copies to be delivered, the address to which the reports should be sent, and the deadline for delivery. The number of copies depends on the number of parties involved in the project — these may include an interim lender or another federal or local agency (e.g., a local housing authority if tax credits or HOME funds are involved). Each party involved should be addressed in the Letter of Transmittal and identified as a user of the report. A sample Letter of Transmittal is provided as **Attachment 8-D**.

- **Background Information.** The SOW must include all information needed to value the property including the following:

  ◊ Legal description of the property. This must include the property address, title information, and any covenants or restrictions on the property. A preliminary title report can be used to fill this function.

  ◊ Work description including plans and specifications for the building and site improvements, floor plans, plat, site map, survey, and cost estimates. The plans must have sufficient detail for the appraiser to determine the size and type of structures to be built or improved, the materials to be used, and the site improvements.

Good Practice

Special emphasis should be placed on the completeness of the work description for rehabilitation and repair so that the appraiser can conclude an accurate value for the improvements.

  ◊ The name of the property owner and any other people who have information on the property's value, such as the developer.

  ◊ Other subject property information, including the market study, the environmental impact assessment (EIA), the subject's actual operating statements for the

previous three years, the owner's projected operating budget, the subject's rent roll, and the unit mix.

C. Paying for Appraisals

Before a contract appraiser is paid, a Staff Appraiser must review the appraisal for consistency with the contract's Statement of Work and compliance with USPAP and Agency appraisal requirements as described in paragraph 8.7.

- If the appraisal is acceptable, the staff appraiser should submit the request for payment on *Form RD 838-B, Invoice Receipt Certification*. Instructions for payment of contracts are found in RD Instruction 2024-A, Acquisition, Sales, and Leasing Authority and Exhibit D, "Acquisition, Sales, and Leasing Authority."

- If the appraisal is deficient, the reviewer must inform the appraiser of the deficiencies prior to payment. If the deficiencies are not addressed, the reviewer must return the appraisal report and a copy of the review comments to the appraiser. The Senior Appraiser should schedule a meeting with the contractor and the Contracting Officer to discuss the appraisal and contract terms. All contractual actions taken by the Agency must be through the Contracting Officer and comply with the Federal Acquisition Regulations (FAR). Continuation of the contract will be based on the contractor's ability to meet or exceed the conditions of the contract statement of work.

8.13 AGENCY REVIEW OF THE APPRAISAL

Staff Appraisers (or in some cases, Loan Originators) must review all appraisals to ensure that they meet the terms defined in the Statement of Work and are consistent with USPAP and Agency requirements. The reviewer should use *Form RD 1922-13, Reviewer's Appraisal Analysis*[1] to document the review of the appraisal.

The reviewer should take the steps described below. If the review shows that the appraisal has deficiencies, the reviewer must inform the appraiser of the deficiencies.

- **Step 1: Review for Completeness.** Review the appraisal for completeness using the Agency appraisal form. Use a checklist to ensure that all of the essential elements of a Complete Appraisal, as required by USPAP and the Agency, have been included in the report.

> **Good Practice — Quality Control**
>
> Each year, staff appraisers should conduct field reviews on at least 10 percent of the appraisals to confirm the quality of appraisals performed.

- **Step 2: Review for Reasoning.** Confirm that the analyses, opinions, and conclusions in the appraisal are appropriate and reasonable and that the report provides support for its conclusions. Consider whether the appraiser took all relevant information into account, such as:

- ◊ Using the correct rents for the type of value requested (e.g., restricted rents should be used for "value in use," while market rents should be used to determine market value);
- ◊ Factors that could affect the project's value such as nearby development, or environmental, zoning, or encroachment issues;
- ◊ Market information including local rents and sales;
- ◊ Population trends and other demographic data; and
- ◊ Future area development plans.

- **Step 3: Review for Subsidy Value.** There are several types of subsidies that must be considered in the appraisal of subsidized multi-family properties, including interest credit (below-market financing), tax credits, grants, and project-based rental assistance. Each type of subsidy must be valued separately, and the value of the subsidy must not be included in the value of the subject real estate. Check the appraiser's calculation of value for each type of subsidy. (See **Attachment 8-A** for guidance on the correct method to calculate the interest credit subsidy value.)

- **Step 4: Review for Overall Conclusion.** Determine whether the final value conclusions in the appraisal report are reliable.
  - ◊ Has the appraiser provided conclusions of the subject's value using all applicable approaches to value?
  - ◊ Have the value indications derived by each of the approaches to value been adequately reconciled? If the approaches do not yield a consistent value, has the appraiser provided an adequate explanation?

8.14 EVALUATING THE RESULTS OF THE APPRAISAL

The appraisal is a critical document in the underwriting process. It gives the Loan Originator information about the subject property's region, neighborhood, market, and value and thereby aids the underwriter in loan-making decisions. When evaluating the results of the appraisal, the Loan Originator will go back to the underwriting questions outlined in Chapter 5:

- Is the project eligible?
- Is the project economically feasible?
- Are the costs reasonable?
- Are the Agency's interests secure?

See Chapter 5, Section 3 for a full discussion of these underwriting criteria.

A. Is the Project Eligible?

The appraisal provides additional information about project eligibility.

- **Site suitability**. The appraisal documents boundary lines and zoning, and notes desirable and undesirable elements in the market area and on the site. These elements should be reviewed to confirm the project's eligibility.

- **Rents**. The Loan Originator should compare the proposed Basic Rents for the project with the market rents provided in the appraisal. Program rules specify that Basic Rents in Agency projects may not exceed the conventional rents for comparable units in the market area. Therefore, if the appraisal shows basic rents in the project to be higher than conventional rents for comparable units, the project proposal must provide significant justification for an exception, or the applicant must seek additional financing to reduce rent levels.

B. Is the Project Economically Feasible?

The appraisal also provides information about the demand for affordable units and the likelihood that the property will be financially successful. This information can help the Loan Originator to make a final determination about the project's feasibility. The key items to consider include the following:

- **Vacancy rate**. The income approach should indicate the vacancy rate projected for the project, and the reasons for the given rate should be well documented. Vacancy rates above five percent may suggest that sufficient affordable housing is already available in the market and that the project may not have enough demand to be feasible.

- **Community growth rate**. The Loan Originator should consider whether the local population is growing or declining. A declining population may mean that new housing is not needed in the area.

- **Industry**. Do local industries provide sufficient stable employment to support this community into the future? Again, if the local economy is in decline, the area may experience a drop in the need for new housing.

- **Market rents**. Rent levels are also an indication of the need for new units. If Basic Rents projected for the project exceed market rents, this is an indication that the project is competing with conventional housing and that there is sufficient affordable housing in the market.

  - ◊ **Capitalization Rate**. The capitalization rate reflects the ratio of the projected net operating income to the concluded value of the project. The overall rate is a measure of the return anticipated by an investor in the market. Generally, the greater the risk an investor is willing to take, the higher the expected rate of return. Therefore, the Loan Originator should look at the capitalization rate as a

measure of anticipated risk in the project. According to real estate industry standards, a capitalization rate of 10 percent or more suggests that investors consider the investment relatively risky. It may also indicate that there is adequate housing available at affordable rents and that there is insufficient demand for the project.

C. Are the Costs Reasonable?

The information in the cost approach of the appraisal can help confirm whether project costs are reasonable.

- **Highest and best use**. The appraisal should confirm that the highest and best use for the property is housing. If not, this may increase the development costs for this project.

- **Operations and Maintenance Costs**. The Loan Originator should examine the projected operating and maintenance (O&M) expenses in the Income Approach. They should be comparable to the O&M expenses of other subsidized projects (as verified by expense comparables and expense surveys like IREM). For conventional properties, O&M expenses greater than 60 percent of effective gross income may indicate that the property has not been properly maintained or is not managed efficiently. However, for subsidized properties, a high Operating Expense Ratio (OER) may simply reflect relatively low income due to the property's restricted rents.

D. Are the Agency's Interests Secure?

The appraisal is ultimately an opinion of value that aids the Loan Originator in determining whether the Agency's interests are secure. In considering the project's value, the Loan Originator should look at the following criteria:

- **Appraised Value**. In examining the appraised value, the Loan Originator should compare the appraised value to the total development costs proposed by the applicant. In general, the appraised value should equal or exceed the estimated development costs to ensure that the loan is secured by the value of the property. However, in cases with capital subsidies (e.g., tax credits), total development costs usually exceed the appraised value of the real estate.

- **Value of the Land**. The Loan Originator should compare the appraised value of the land to the land value stated in the application. If they are different, the estimated total development costs may not be supported by the appraised value.

- **Insurable Value**. Based on the appraised values, the Loan Originator must determine the appropriate amount of insurance for the property. The insurance is based on the replacement cost of the improvements. To calculate the insurable cost, estimate the replacement cost of the improvements and subtract entrepreneurial profit and the cost of the foundations and any indestructible site improvements. (See Chapter 3 for a full description of the types of insurance required.)

- **Economic Life of the Improvements**. The economic life of the improvements must be sufficient to cover the term of the loan. For new construction, the economic life of the property is considered to be 50 years (for average to good quality construction), and the loan is amortized over that period. However, for existing structures, the appraiser estimates the remaining economic life of the property, not to exceed 50 years. The remaining economic life of the improvements must equal or exceed the term of the Agency loan. If it does not, the amortization period for the loan must be adjusted to equal the remaining economic life of the improvements.

ATTACHMENT 8-A

GUIDE FOR VALUATION OF INTEREST CREDIT SUBSIDY

When multiple financing sources are involved in a Rural Rental Housing Program project, the appraisal report should contain a narrative identifying each source of financing, including the amount, the rates and terms, and the value of each source of financing. The following instructions and example can be used as a method for valuing the *interest credit subsidy*.

Example: The USDA/Rural Housing Service offers new construction loans on apartment properties in the Rural Rental Housing Program (515 Program) at an interest rate of one percent. The loan term is 30 years, but the amortization period is 50 years. The projected holding period is 30 years, at the end of which time a balloon payment is due. **If the loan amount is $1,000,000, and the current interest rate for mortgage loans on conventional apartments is 7.0 percent (based on an 80 percent LTV and 30-year amortization), what is the value of the "interest credit subsidy" or below-market financing?**

The following method for valuation of the interest credit subsidy is suggested. It is based on the solution to a typical Cash Equivalency problem offered in several Appraisal Institute courses.

The value of the interest credit subsidy can be calculated by subtracting the monthly debt service at the basic mortgage interest rate (one percent) from the monthly payment at the current rate offered for conventional loans and discounting the difference by the current conventional interest rate over the projected holding period. The present value (PV) of the balance of the RHS loan at the end of the 30-year loan term (the PV of the balloon payment) is then subtracted from the present value of the 30-year cash flow to derive the value of the interest credit subsidy.

The loan amount in the example problem is $1,000,000. The monthly payment at 7.0 percent, amortized over 30 years, would be $6,653.02. The monthly payment at 1.0 percent, amortized over 50 years, is $2,118.59, but a balloon payment of $460,669 is due at the end of 30 years. The difference in the payments at the two different interest rates is $4,534.43 per month. The apartment owner saves $4,534.43 per month due to the below-market financing. Without the benefit of the below-market financing (interest credit subsidy), the owner would pay an additional $4,534.43 per month, at an interest rate of 7.0 percent, over the projected holding period. The projected holding period for the subject property is the loan term, 30 years. The present value (PV) of the balance of the RHS loan at the end of the 30-year loan term (the PV of the balloon payment) is calculated by discounting the balloon payment ($460,669) by the current mortgage interest rate (7.0 percent) over the term of the loan (30 years). In this example, the PV of the balloon payment can be calculated with an HP-12C calculator using the following keystrokes:

460,669 CHS FV
7.0 g i
30 g n
Solve for PV = 56,757

The value of the interest credit subsidy is therefore equal to the amount of the monthly debt service saved, discounted by the current conventional mortgage interest rate over the projected holding period, minus the present value of the RHS loan balloon payment. The value of the interest credit subsidy for the subject property can be calculated with an HP-12C calculator using the following keystrokes:

4,534.43 CHS PMT
7.0 g i
30 g n
Solve for PV = 681,559
56,757 —
Value of interest credit subsidy = $624,804
The Value of the Interest Credit Subsidy is $625,000 (rounded)

An alternate series of keystrokes suggested to solve for Value of the Interest Credit Subsidy is presented below:

1,000,000 PV
g i
50 g n
Solve for PMT = -2,118.59
30 g n
Solve for FV = -460,669 (This is the balance of the RHS loan at the end of 30 years.)
7.0 g i
Solve for PV = 375,198 (This amount would be the Cash Equivalent Sale Price.)
STO 1
1,000,000 ENTER
RCL 1-
Value of the interest credit subsidy = 624,802 (DISPLAY)

Note: In a Cash Equivalency problem, if one of the Sales Comparables sold for $1,000,000, with zero percent down, and below-market financing was obtained on a 30-year loan at 1.0 percent interest, amortized over 50 years, the comparable sale price would have to be adjusted downward by $624,802 to account for the premium paid by the buyer for below-market financing. In other words, the value of the below-market financing is $624,802.

ATTACHMENT 8-B

APPRAISER'S GUIDE TO RURAL RENTAL HOUSING

Part I. General

This guide gives rural rental housing (RRH) appraisers technical guidance which must be used in completing an appraisal for Farmers Home Administration. Topics included in this Guide are:

(a) Capitalization value. This is the value that is based on enabling the income stream to support the annual debt service, operating and maintenance (O&M) expenses, funding the reserve, and giving a return to the owner in a specified time-frame. Capitalization value is a direct ratio between annual net operating income (NOI) and value/sales price. Typically, this ratio is expressed in terms of money or its equivalent.

(b) Replacement value. This is the summation of the costs of the property. Replacement cost includes land, fees, Davis Bacon wage rates (when required), and services that would be required to replace or duplicate the property as improved.

(c) Comparable sales value. The value determined from the analysis of sold units which are from the subject market area. Sales data could be from a similar area (demographically and economically) and are similar to the subject in size, function, type of construction, construction material used, location, financing, etc.

(d) Loan value. For RRH proposals, the loan approval official will determine this value not to exceed the loan amounts established in Rural Development instructions. For Labor Housing proposals, the loan approval official will consider this value to be the combination of loan and grant funds.

(e) Market value. For the purposes of Rural Development subsidized housing, market value is the reconciliation of the three valuation approaches, Cost, Income and Comparable Sales, where the following relationships exist:

(1) The buyer and seller are typically motivated; both parties are well informed or well advised.

(2) Each is acting in what they consider to be their own best interest.

(3) A reasonable time is allowed for exposure in the open market.

(4) Payment is made in cash or its equivalent.

(5) Typical financing in the community, as provided by government subsidized loan/grant rates and terms or conventional lending rates and terms.

(6) The price represents a normal consideration for the property sold, utilizing conventional or government financing, unaffected by any other special financing amounts and/or terms, services, fees, costs, or credits incurred in the transaction.

(f) Depreciation. Depreciation is a loss of utility from physical deterioration and/or obsolescence.

(g) Obsolescence. Obsolescence is the impairment of desirability and usefulness brought about by new inventions, recent changes in design, and improved processes for production or from external influencing factors which make a property less desirable for continued use. Obsolescence may be either functional or economic.

(1) Functional obsolescence is shown by conditions within the property. Some of these conditions could be poor design, functional inadequacy, overadequacy due to size, etc.

(2) Economic/locational obsolescence is diminished useful life arising from factors external to the property. Causes of this could be environmental changes, legislation, deteriorating neighborhood, economic conditions, etc.

(h) Economic life of housing. The economic life of a structure is the period of time over which enough income is produced to cover the cost of operation and maintenance, plus an adequate return for the use of the site. The economic life of a building can never be greater than its physical life. For example, a structure can have many years of physical life remaining and yet have reached the end of its economic life.

(i) Site. A site is land that is ready and suitable for development.

(j) Sure rate. A capitalization rate selected from an investment that has virtually no risk.

(k) Current appraisal. "Current appraisal" is an appraisal for a new loan request or the revision of an existing appraisal. Revising an existing appraisal is acceptable when the following conditions exist:

(i) The appraisal being revised is not more than one (1) year old;

(ii) Adequate supporting documentation is attached to the revised estimate of value;

(iii) Substantial changes have not been made to the property; and

(iv) The property has been inspected by the appraiser.

Part II. Administrative Considerations for the Appraiser

The appraiser will be required to furnish photographs of the front, rear, and side exposures, current tax and plot plan, along with the proposed operating plan and budget. If the appraiser determines that it is not appropriate to complete the appraisal, he/she should list the reason(s) and request further instructions from the Contract Officer or Contract Officer's Representative.

(a) Administrative considerations for Contract Appraisers.

(1) Before the appraiser inspects the property, the loan approval official will review the market data to verify that a need exists for the type of proposal requested, i.e., family, elderly, etc.

(2) The Agency should provide the appraiser with a copy of the market study to use in analysis of the subject market area. It should be documented whether the subject community is progressing or declining, and information should be provided regarding the market area's economic stability, and the age and income levels of the population. Other documents that should be furnished for the valuation process are the environmental assessment and operating budgets from similar Rural Development projects.

(3) The appraiser should document if the Rural Development basic rents are less than, equal to, or greater than the market area's conventional rental rates. When the basic rents are equal to or greater than the conventional markets rents, it is a sign of an extremely soft market. When this situation occurs, the appraiser should make a special notation in the appraisal for the Appraisal Systems Manager (ASM) to review. It is the responsibility of the ASM to inform the loan approval official of any limiting conditions in the appraisal.

(b) Inspection of Property.

(1) The appraiser is to identify the property. Boundary lines are to be checked for accuracy against the plot plan and legal description. The appraiser's knowledge of the proposed housing should be based on a careful inspection of the site, factual information previously gathered in the community, and general observations. For rehabilitation of structures, the appraiser will examine the property to be sure that plans and descriptions furnished are adequate to carry out the proposal. Appraisers should check to see that plans comply with local ordinances.

(2) The appraiser should see development in the area surrounding the proposal and note in the appraisal desirable and undesirable elements of the market area. Zoning and land use plans for the area should be reviewed. Variations to zoning or land use plans and future development surrounding the subject property should be reflected in the appraisal. Data should be reviewed that will determine if any health and safety risks are present. Natural barriers against blight or undesirable use of neighbor properties should be recorded in the appraisal. Observations that affect the property's marketability and recommended market value are to be documented by the appraiser.

Part III. Considerations that Influence Value

(a) General.

(1) The location of the housing development with respect to availability of essential goods and services, employment, transportation, shopping and potential employment, transportation, shopping and potential alternative uses are important considerations in appraising multi-unit housing. Housing is to be on a public road. All housing complexes must have adequate and unrestricted access to a public street.

(i) The appraiser should be aware of any unfavorable factors that will have an impact on the recommended market value. This is one of the most important variables in determining the value for the property. Objectivity is essential in identifying and discussing unfavorable location factors; such as potential risks to human health and safety caused by the presence of floodplains, mudslide areas, steep slopes, hazardous waste materials, high shrinkswell soils, seismic conditions, drainage problems, high noise levels, traffic conditions, etc.

(ii) Housing located so that the occupants will have ready access to their daily needs and be close to medical and hospital facilities generally will have a higher market value than similar property located where essential services are not as readily available.

(iii) Consideration should be given to the population trends of the local community to determine demand/need for housing. The appraiser should avoid generalizations about population trends of neighborhoods. In developing areas, population changes can often be determined by the ongoing visible changes in land use. In undeveloped or sparsely developed areas, local zoning and comprehensive plans may serve as the best available information for projecting future population trends.

(2) Alternative uses: The appraisal purpose is to determine the estimated market value of the rental housing project (site, building improvements, and income stream) that will be used by Rural Development for determining loan amount.

(3) Financing: Amortization periods for rental housing are over a long period of time. Appraisers should be aware of and thoroughly document the environmental conditions that are likely to affect marketability. Examples of property factors that affect recommended market value are industrial development, highway construction proposals, future community development plans, etc.

(4) Design: Specialty designed housing intended for only one type of use generally has an adverse effect on value. Such properties ordinarily carry a higher risk factor requiring net earnings to be capitalized at a higher rate to attract investors. There may be some design features which are necessary for special purpose housing that have little or no application for other uses. Added value consideration should be given only to design features that are customary for the market in which they are to serve.

(5) Noncontiguous sites: When housing projects utilize noncontiguous sites, a separate appraisal must be developed for each site. A narrative exhibit will be attached to the appraisal report (*Form RD 1922-7, "Appraisal Report for Multi-Unit Housing*"), which discusses the value each site contributes to the overall appraisal. The narrative must provide "how and why" the final estimated market value of the noncontiguous sites was determined.

The final estimate of value is to be derived from the reconciliation of the property values being appraised. The appraiser will not assume that the indicated value for each property can be totaled to provide the final estimated market value. The Reconciliation and Value Conclusion, (Part O of *Form RD 1922-7, Appraisal Report for Multi-Unit Housing*) will be completed as an attached narrative using the format in the appraisal form.

(6) Capitalization Rate Components:

NOI is calculated as follows:

Potential Gross Income (project income from rents) (-) vacancy rate (+) any other project income (=) Estimated Gross Income

Estimated Gross Income (-) Operating and Maintenance Expenses (=) Net Operating Income

When computing this method, the first year contract rents (Rural Development market rents), as mandated in the promissory note, are to be used to determine NOI. To determine what realistic operating expenses should be, data from successful complexes should be made available to the appraiser.

Cap rate terminology:

Market rate: Capitalization rate extracted from market data. Market data must be from the subject market.

Sure rate: A cap rate known to be obtainable from an investment with similar risk. Typically, this method is used when the subject market data is considered unreliable for a specific market area mentioned.

Built-up cap rate: Building an appropriate cap rate from the subject's mortgage data and cap rate data from the market area.

The capitalization rate used should be derived from the market in which the subject is to operate. If the appraiser determines that market data is of insufficient quality or quantity, then the appraiser is to use the built-up method for a cap rate. The use of a sure rate or the construction of a cap rate from investments with similar risk are other acceptable methods to obtain cap rates. The appraiser must keep in mind that

although the risk associated with subsidized housing is less than in other investments, it is not a risk free investment. Therefore, when a sure rate, built-up method of substitution of similar risk investments cap rate is used, the appraiser will document the method used and why. It is recommended that each appraisal have an exhibit which documents four methods of obtaining a cap rate. These are, band of investment (built-up method), market rate, sure rate, and substitution of similar risk investment rate.

(b) Evaluating Structures.

(1) New structures that are well located and have good design, typically will have a market value approximating the cost of building, the site, and the value of the income stream. Thorough documentation of all adjustments must be made for any obsolescence caused by improper design, poor location, atypical construction, etc.

(2) Older structures being rehabilitated present complex appraisal problems. Adjustments must be made for depreciation and obsolescence. Depreciation should be handled in one of two ways:

(i) Depreciation/obsolescence adjustments should be calculated using data from the subject or similar market. Adjustments are to be from similar type housing and must be thoroughly documented.

(ii) When the appraiser determines it appropriate, a component depreciation method can be used. This calculation produces the item's time-in-use versus life expectancy ratio. The time-in-use adjustment is subtracted from the installed new cost to determine the "as is" value. The "as is" value subtracted from the installed new cost nets the amount of each line item's physical depreciation. Typically, depreciation and obsolescence prevent older properties from exceeding the replacement cost approach value.

(iii) In many instances the use of depreciation schedules may be applicable for this calculation. When this method is used, the appraiser is to document the reason for selecting this technique.

(3) "Value in use". A supplemental energy saving device must show potential cost savings in order to be cost effective within its realistic economic life. If the calculations in the instruction reflect a substantial negative savings, deductions in cost/value of the device are justified.

(4) Special consideration for all housing projects designed for elderly or handicapped persons. The following are some of the special factors to be considered by the appraiser which affect value of rental housing.

(i) The provisions of the Fair Housing Amendments Act of 1988, which mandates provisions for handicapped persons and convertibility of existing units.

(ii) The distance to shopping centers, places of worship, neighborhood stores, medical and recreational facilities are to be considered. The availability of transportation is a significant factor in evaluating the location of rental housing units.

(iii) Adequacy of police, fire, and municipal services, as well as hospital facilities are important considerations.

(iv) The site should physically lend itself to a good site plan. This is a site plan which permits economical and convenient installation of housing improvements and related facilities for use by the tenants.

(c) Considerations for LH projects.

(1) Financing. The appraiser will assume that the economic life of the development will equal or exceed the amortization period of the loan. LH grants are a subsidy to the project. Therefore, grant valuation is to be determined using the subsidy valuation method. No such loan or loan/grant combination shall exceed the development cost or the value of the security, whichever is less.

(2) Construction. Typically, LH is to be designed and constructed similar to RRH housing or typical to similar structures in the subject community. Different types of LH will require the appraiser to consider the design and materials used in the proposed facility, such as year-round occupancy versus seasonal occupancy.

(3) Other Factors the Appraiser Will Need to Consider in Determining the Recommended Market Value of the Property. It is to be assumed that the future use of this property will likely be for housing domestic farm laborers. Location of the facility in relation to employment and community services, such as schools and transportation, are important considerations. LH units are to provide privacy, and should be home-like and comfortable. Housing should be suited to the type of laborers being employed, i.e., single men, families, mixed singles, etc. Generally, the housing should be for family units or be readily convertible to accommodate families.

ATTACHMENT 8-C

SAMPLE STATEMENT OF WORK

Background. Rural Development provides loans to eligible applicants for multi-family income producing property.

Objective. Rural Development requires the services of qualified persons or firms to provide appraisal services for the purpose of determining the market value of multi-family income producing property. If required, the Contractor shall defend the appraisal in court or in the Rural Development appeals process. Except where noted herein, the Contractor shall provide all facilities, materials, supplies, tools, equipment, personnel, and travel to accomplish the performance of the requirements of this contract.

Scope. The Contractor shall provide appraisals for_____ MFH properties in_____ county(s) for a period of twelve months from the date of award. The contract appraisals will be used to determine the market value of MFH property for loan making, servicing, acquisition, and sale. The contractor shall be notified of required work through the issuance of a Task Order. (**Note**: The solicitation should provide specific details regarding the information which will be provided in the task order. For example, the task order should specify the property suitability, new construction or existing structure, repair requirements (attach repair requirements developed during the government inspection), etc. The required work as defined herein shall be submitted to the Contracting Officer's Representative (COR) within _____ calendar days of issuance of the Task Order. (**Note**: Completion time will not exceed 45 days unless authorized by the State Director.) In emergency cases, a shorter time period may be required for submission of the appraisal.

Detailed Work Requirements. The Contractor shall provide appraisal services for Rural Development as follows:

1. Appraisals shall be completed in accordance with Exhibit A and Exhibit B on *Form RD 1922-7, Appraisal Report for Multi-Unit Housing* and RD Instruction 1924-13, Estimate and Certificate of Actual Cost. The appraisal shall be in typewritten or legible ink print form. (**Note**: Automation Versions of *Form RD 1922-7, Appraisal Report for Multi-Unit Housing* and the Marshall & Swift On-Line Computerized Cost Data System - RE2 or SEG program [report], may be permitted with the prior approval/acceptance of the Rural Development State Director.) The appraisals shall be completed giving due consideration to the following:

   A. Location of property: Adhere to legal descriptions and surveys for proper location of site to avoid errors such as infringement, encroachment, etc., when appraising a property.

   B. Use of comparables: Use comparable sales of multiple family residential properties. The use of bonafide arms length Rural Development comparable sales is an acceptable practice.

C. Property improvements: In the event Rural Development provides to the contractor a list of repairs required to improve the property, these repairs shall be reflected in the appraisal process and must be listed on *Form RD 1924-13, Estimate and Certificate of Actual Cost*.

D. Depreciation: A property with an effective age of five years or more shall have documentation for short-lived and long-lived physical depreciation calculations.

E. Approaches to property value: The market data approach (comparable sales), cost approach, and the income approach shall be used by the contractor in reconciling the final estimate of market value of the property.

F. Budget of operating and maintenance expenses: If required, complete *Form RD 1930-7, Multi-Family Housing Project Budget*, in accordance with applicable Forms Manual Insert instructions.

2. Supporting documentation: Documentation supporting the development of the appraisal shall be submitted to the COR with the completed appraisal. As a minimum, the supporting documentation shall include the following:

A. Clear and concise explanations for all calculations utilized to develop the appraisal. As a minimum, the documentation shall include all mathematical calculations of adjustments, justification for adjustment, and a narrative explanation supporting any other basis utilized in the decision process.

B. Provide photographs of the subject property, in accordance with *Form RD 1922-7, Appraisal Report for Multi-Unit Housing*, photographs of the comparable sales, and comparable sales data used in the appraisal.

ATTACHMENT 8-D

SAMPLE TRANSMITTAL LETTER

_____, 2003

_____ Appraisal Services
_____ MAI
_____
_____, (State) _____

Dear _____:

In our recent telephone conversation you quoted a price of $_____ to complete one (1) Multi-Family Appraisal for the following Multi-Family Housing property:
_____ _____ (Address, City and State, County).

The completed appraisal shall provide _____ estimate of value. The appraisal shall determine the _____ value of the project as _____ housing.

Rural Development is issuing Purchase Order (60-0496-0-C00xx) [sample number] to your firm. You will have until _____ (date) to complete and return 3 copies of the appraisal to _____, Contracting Officer's Representative (COR), Rural Development (formerly Farmers Home Administration), _____ _____ (Address, City and State). The Government is allowed fifteen (15) days from the date of receipt of the submitted appraisal for the appraisal review. The invoice shall be submitted to the COR's attention at the same address. Upon acceptance of the appraisal and receipt of a properly prepared invoice payment shall be processed in accordance with the Prompt Payment Act.

We are enclosing the AD-838, Purchase Order; FmHA 2024-18, Designation of Contracting Officer's Representative (COR); and the Appraisal Contract Terms and Conditions which includes the statement of work, clauses and other information.

Please note that this written correspondence confirms our oral discussions and establishes the completion dates for the performance of the Contract.

Thank you for your prompt attention. If you have questions please contact me at _____ (phone number).

Sincerely,

_____
Contracting Officer

Enclosures

cc: COR/MFH Program Director, _____ State Office, _____
MFH Housing Specialist, _____ AO, ____

ENDNOTES

[1] Note: *Form RD 1922-13, Reviewer's Appraisal* may be replaced before publication of Handbook.