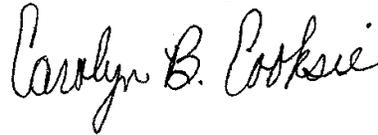


For: State and County Offices

**Poultry and Other Concentrated Animal Feeding Operations (CAFO's)
Facility Appraisals – Guaranteed Loss Claims**

Approved by: Deputy Administrator, Farm Loan Programs



1 Overview

A Background

Poultry and other CAFO facilities are often appraised for the “liquidation or salvage” value by a guaranteed lender when submitting a loss claim because CAFO is no longer active. Subsequently, a third party may purchase the facility for the “liquidation or salvage” value and obtain a contract from an integrator which then inflates the value of the property to its “highest and best use” value as an active CAFO. This results in a greater loss paid by FSA than necessary and the possibility that FSA will approve a guarantee on the same property on which it previously paid a substantial loss. This has occurred frequently in poultry operations.

B Purpose

This notice requires State and County Offices to:

- analyze lenders’ liquidation appraisals for poultry and other CAFO’s to ensure that the market conditions for CAFO’s and the demand for producers by area integrators has been properly reflected in the appraisal
- advise guaranteed lenders, when submitting loss claims, that they should, according to the Uniform Standards of Professional Appraisal Practice (USPAP), appraise CAFO property to determine the “highest and best use” value considering the demand for CAFO facilities and operators by the area integrators and only use “liquidation or salvage value” appraisals when there is no demand and it is unlikely that the property will be used for a CAFO in the future.

C Contact

If there are any questions about this notice, contact Mel Thompson, LSPMD, at 202-720-7862.

Disposal Date

April 1, 2007
4-11-06

Distribution

State Offices; State Offices relay to County Offices

2 CAFO Property Liquidation

A Liquidation Plan

2-FLP:

- subparagraph 183 A requires that real estate appraisals must meet the requirements of USPAP
- subparagraph 358 B requires the lender's liquidation plan to include an independent appraisal report on all collateral securing the loan that meets the requirements of 2-FLP, paragraphs 181 through 183.

B Appraising Poultry Facilities and Other CAFO's for Loss Claims

Lenders must be advised that appraisals of poultry and other CAFO facilities should take into consideration the probable future use of the facility in determining the "highest and best use". Availability of integrator contracts and willing operators, as well as product demand, will be considered by the lender when requesting an appraisal. After considering these factors, if there is substantial demand for the operation to continue in its intended use, the property should be appraised accordingly. The property should not be appraised as "liquidation or salvage value" with the subsequent diminished value, unless it is determined that the property cannot be used for the CAFO purpose, or there is no or minimal demand for such use. If the market indicates that there is a demand for such facilities with integrators in the area, then the appraisal requested by the lender will be a market value appraisal less the cost, if necessary, of repairs or retro-fitting. When assigning the scope of work for the appraisal according to USPAP Standards Rule 1-2(f), the lender should require the appraiser to:

- survey all existing integrators in the area as to the feasibility of the availability of an operating contract on the property
- appraise the property for its "highest and best use" as required by USPAP Standards Rule 1-3.

Appraisers should be held accountable by the lender, for a "liquidation or salvage value" appraisal of a CAFO facility that is in fact suitable as a functional facility. Lenders will be advised that FSA will be closely reviewing these types of appraisals.

Notice FLP-421

2 CAFO Property Liquidation (Continued)

C Final Loss Claim

If, within 2 years of payment of the final loss claim, there is a loan request on the same property that appraises the property at a greater value than the appraisal used to calculate the final loss payment, then the appraisals should be thoroughly reviewed to determine the reason for the discrepancy. In addition, any loan application received in this circumstance must be very thoroughly reviewed. If it is determined that the property appraisal at the time of the loss claim payment was deficient, then the Agency will initiate actions against the lender to recover the difference in value.

If a property securing a poultry operation or other CAFO is repurchased at the foreclosure sale and subsequently re-sold by the lender for a higher value than the appraised value, then the proceeds exceeding the appraised value must be paid proportionally to FSA as determined in the final loss claim.