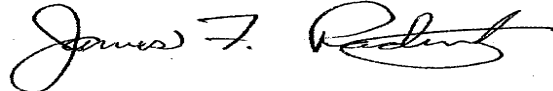


For: State and County Offices

Real Estate Evaluation and Appraisal Requirements for Guaranteed Loan Making and Servicing

Approved by: Deputy Administrator, Farm Loan Programs



1 Overview

A Background

Guaranteed lenders are responsible for ensuring that the value of real estate pledged as collateral is sufficient to fully secure the guaranteed loan. Evaluations or appraisals will be completed on all real estate that will serve as basic security based on the loan amount and the lender’s normal valuation policies. Evaluations and appraisals are not required on real estate that will serve as additional security. Furthermore, lenders are responsible for ensuring the person completing the evaluation or appraisal, has the necessary qualifications and that appraisals are completed according to the Uniform Standards of Professional Appraisal Practices (USPAP).

Note: Guaranteed lenders are also responsible for obtaining evaluations or appraisals for certain servicing actions.

B Purpose

This notice provides guidance on:

- when evaluations and appraisals are to be submitted to FSA
- reviewing evaluations and appraisals
- what to do if an appraisal is determined to be unacceptable.

C Contact

For questions about this notice County Offices shall contact their State Office, and State Offices shall contact:

- LMD at 202-720-3889 for questions about loan making
- LSPMD at 202-720-4572 for questions about loan servicing.

Disposal Date	Distribution
January 1, 2018	State Offices; State Offices relay to County Offices

Notice FLP-766

2 Lender Submission of Evaluations and Appraisal Reports

A Loan Making

Evaluations and appraisals of real estate collateral are **not** part of a complete application and guarantee requests may be approved by the authorized agency official subject to the lender obtaining an acceptable evaluation or appraisal. The lender is responsible for properly documenting the market value of the collateral before loan closing and FSA issuing the guarantee.

MLP's and SEL's must provide FSA with a copy of the evaluation or appraisal prior to FSA issuing FSA-2235, if the request was approved subject to obtaining the evaluation or appraisal.

CLP's and PLP's certify that evaluations or appraisals have been completed, which support the security values as stated in the Conditional Commitment and are **not** required to submit the evaluation or appraisal to FSA. The lender will maintain the evaluation or appraisal in the lender's loan file.

Lenders are encouraged to provide their appraisers with the appraisal guidelines found in 1-FLP and 2-FLP. Use of the appraisal guidelines will help ensure obtaining quality appraisals.

Authorized agency officials shall review evaluation and appraisal requirements and appraisal guidelines during lender training sessions.

Exhibits 1-4 provided the FSA appraisal guidelines and addendums for specialty type properties such as poultry, hog, and dairy. The exhibits will be published in a forthcoming amendment to 2-FLP.

B Loan Servicing

All lenders, regardless of their status are required to obtain acceptable evaluations or appraisals when loans are secured by real estate for the following actions:

- transfer of security and assumption of debt (according to 2-FLP, subparagraph 281 D)
- debt writedown
- servicing FSA-2253's
- liquidation
- partial releases of security if determined necessary by FSA
- subordinations of basic and/or additional security
- restructures with balloon payments.

Notice FLP-766

2 Lender Submission of Evaluations and Appraisal Reports (Continued)

B Loan Servicing (Continued)

MLP's and SEL's must submit evaluations or appraisals to FSA with requests for transfer and assumptions, debt writedowns, liquidations, and partial releases.

CLP's must submit evaluations or appraisals to FSA with requests for debt writedowns, liquidations, and partial releases.

PLP's must submit evaluations or appraisals to FSA with requests for debt writedowns and final loss claims.

An evaluation or appraisal obtained for servicing actions must be maintained in the lender's loan file.

3 Performing Evaluation or Appraisal Reviews

A Evaluations or Appraisals for Submitted to FSA

The authorized agency official will review the:

- evaluation using FSA-2234
- appraisal to determine if the:
 - correct type of valuation process was performed based on the loan amounts
 - person completing the evaluation or appraisal had the required qualifications
 - correct property was valued
 - value of the real estate is adequate to secure the loan as proposed by the lender.

B Evaluations or Appraisals not Submitted to FSA

FSA will conduct lender reviews according to 2-FLP, paragraph 267. During the lender review, the authorized agency official will review evaluations using FSA-2234. Authorized agency officials will review appraisals that have not been previously reviewed by FSA based on the files selected for review to determine if the:

- correct type of valuation process was performed based on the loan amounts
- person completing the evaluation or appraisal had the required qualifications
- correct property was valued
- value of the real estate is adequate to secure the loan as proposed by the lender.

Important: Any errors noted by the review will be discussed with the lender during the review exit conference and documented in the letter to the lender outlining the results of the review.

Notice FLP-766

3 Performing Evaluation or Appraisal Reviews (Continued)

C Administrative and Technical Reviews

FSA will no longer conduct administrative and technical reviews on appraisals for guaranteed loan making or loan servicing actions except for those submitted for liquidation.

D Evaluations or Appraisals for Loan Servicing Liquidation

Evaluations submitted for liquidation will be reviewed using FSA-2234.

Administrative appraisal reviews will be completed on all appraisals submitted to FSA for loss claims. If the administrative review indicates serious deficiencies with the appraisal, a technical review will be completed. If the technical review shows the appraisal to be unacceptable, approval of a loss claim will not be granted until an acceptable appraisal is obtained.

Note: See 1-FLP, subparagraph 143 B for more information about completing an administrative review and 1-FLP, subparagraph 143 D for more information about technical appraisal reviews.

4 Notifying Lenders of Unacceptable Appraisals

A Lender Notification

When a technical review indicates that an appraisal is unacceptable, the appraiser completing the review will provide a memorandum outlining deficiencies and USPAP standards not met to the SED and FLC according to 1-FLP, subparagraph 143 D. The FLC shall coordinate contacting the lender to discuss deficiencies documented in the memorandum, and decide on appropriate actions depending on the request and status of the loan as outlined in 1-FLP, subparagraph 143 D.

5 FSA Appraisal Guidelines

The information elements and content descriptions in the following exhibits are provided as guidelines to assist the lenders and appraisers to deliver a USPAP compliant appraisal report acceptable to FSA. Information element labels should be used in the report for clarity.

An appraisal report following these guidelines and completed by a qualified and certified general appraiser will meet FSA's underwriting rules. See appraisal guideline addendums for specialty type properties such as poultry, hog, and dairy. For unique situations that do not fit the following guidelines, contact FSA with questions.

1 FSA Appraisal Guidelines

A Land, Agricultural Improvements, CAFO, Rural Residence, Farm

The following information elements and content descriptions are provided as guidelines to assist lenders and appraisers when delivering USPAP compliant appraisal reports acceptable to FSA. Information element labels shall be used in the report for clarity.

An appraisal report following these guidelines and completed by a qualified certified general real estate appraiser will meet FSA's underwriting rules. See appraisal guideline addendums for specialty type properties such as poultry, swine, and dairy.

For unique situations that do not fit the following guidelines, contact FSA with questions.

Item	Information Element	Content Description
1	Client	The client will be the lending institution as designated on the appraisal order or Letter of Engagement. Appraisal must be ordered by a financial institution.
2	Intended User(s)	The intended user(s) will be the lending institution and others as listed by the lender on the appraisal order or Letter of Engagement. FSA should be included as an intended user along with others that will rely upon the report. Do not include the borrower or property owner as an intended user.
3	Intended Use	Loan origination or loan servicing.
4	Appraisal Report	Prominently state the "Appraisal Report" option. Ensure that the report meets the content of an appraisal report from USPAP and the following FSA guidelines: <ul style="list-style-type: none"> i. Must have a Table of Contents with all pages sequentially numbered. ii. Appraiser resume listing applicable appraisal education and experience. iii. Restricted reports are not acceptable.
5	Purpose, Condition, Effective Date of Value, Inspection & Report Dates	Provides an "Opinion of Market Value. The condition of the subject should be, "As Is", "As Improved", or "Subject To". If "As Improved" or "Subject To" is used, describe why. State the effective date, inspection date, and report date. The inspection date should typically be the effective date of value. Explain if it is not (such as in a retrospective appraisal).
6	Market Value	Definition and source of market value.
7	Hypothetical Condition/ Extraordinary Assumptions	All hypothetical conditions and extraordinary assumptions shall be clearly and conspicuously described and state that their use might have affected the assignment results. For proposed new construction, a hypothetical condition would apply.

1 FSA Appraisal Guidelines (Continued)

A Land, Agricultural Improvements, CAFO, Rural Residence, Farm

Item	Information Element	Content Description
8	Estate Appraised	Define the estate property rights; Fee simple, Leased fee, Leasehold, Life Estate, etc. and list restrictions to the estate (conservation easements, water rights, encumbrances, contracts, marketing agreements, etc.).
9	Scope of Work	Clearly identify the appraisal problem and provide a summary of the extent of research, verification and analysis to solve it, consistent with fulfilling USPAP Scope of Work rule, Client instructions and these guidelines. Include the appraisal order or Letter of Engagement along with any scope of work modifications, if applicable.
10a	Subject Property	<ul style="list-style-type: none"> i. Adequately identify the subject property with a legal description, map, tax number and/or 911 street address if improved. Include a GPS (latitude/longitude) reference if available. ii. Review and discuss listing and/or auction information and seller disclosures when applicable. iii. Analyze Flood Zone and Flood Map and identify if flood zone affects the subject property and reflect the effect of flood zone in the analysis of subject utility and market appeal, summarizing the result in the Appraisal report. iv. Provide and label color photos for dwelling and major improvements that contribute to value. Provide bare land photos for significant topographical features and permanent plantings.
10b	Physical Characteristics	<ul style="list-style-type: none"> i. Inspect all structural improvements on the subject. Interiors of major buildings shall be inspected. If a physical inspection is not possible, contact the client for authorization to continue without a physical interior inspection. ii. Include a sketch of subject dwelling(s) with contributory value and other major buildings, if applicable. Sketches should provide basis for determining structure size. iii. Include a color site aerial or sketch with labels for numerous buildings (dairy, swine, poultry, headquarters, etc.) iv. Provide color aerial, soil, topographical, permanent plantings and/or other applicable maps. Show property outlines and labels on the maps to describe the property. Include soil legend with soil map.

1 FSA Appraisal Guidelines (Continued)

A Land, Agricultural Improvements, CAFO, Rural Residence, Farm (Continued)

Item	Information Element	Content Description
10b	Physical Characteristics (Contained)	<p>v. Discuss fixtures and personal property (ensure that there is adequate justification for classification and valuation of personal property and fixtures). Summarize any environmental concerns in the appraisal report discovered during the property inspection, and discuss their effect on value. This does not meet the due diligence requirements of the FSA for an environmental inspection.</p>
10c	Legal Characteristics	<p>i. Any impacts of zoning, easements, contracts, entitlements, encumbrances, water rights, partial interests, etc. shall be discussed and supported from the market if value adjustments are required.</p> <p>ii. Describe (not state) zoning to include; building eligibility, minimum lot size, feedlot registration and/or permits, and other pertinent factors that are applicable for the market area.</p> <p>iii. Describe irrigation, drainage and related issues in the appraisal report.</p>
10d	Economic Characteristics	<p>Economic impacts or characteristics of productivity, production and ownership costs, gross and net income, etc., shall be discussed and supported from the market if value adjustments are required. Discuss general market economics, or the economics of a specialized facility.</p>
10e	Characteristics of the Estate Being Appraised	<p>As part of the appraisal assignment under USPAP, characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal must be considered; the property appraised must be identified including the property rights. This typically will include surface and subsurface rights, if the estate of the Subject property is whole. Consideration of oil, gas, minerals, timber, etc., and their possible influence on the value of the Subject property constitutes good appraisal practice and should be discussed in the appraisal report.</p>
10f	New Construction	<p>The report shall include a copy of a blueprint, draft, and/or sketch, provided to the appraiser, along with a summary of cost estimates for the project. Client shall provide adequate documentation for the appraiser to develop a credible appraisal that is not misleading.</p>

1 FSA Appraisal Guidelines (Continued)

A Land, Agricultural Improvements, CAFO, Rural Residence, Farm (Continued)

Item	Information Element	Content Description
10g	Location	Describe the demographics, community services and market influences of the area. Discuss economic, industry and market trends. Identify the similar market area neighborhood or similar facility types for comparable sales.
11	Subject & Sales History	Analyze current sale agreements, options, or listings of the subject. Research, analyze, and report any prior sales of the subject or comparable sales within 3 years for all property types.
12	Highest and Best Use	Consider each factor of H&BU; legally permissible, physically possible, financially feasible and maximally productive (highest value). Describe and state reasoning and analysis for H&BU based on subject characteristics and market influences. Develop H&BU for “as vacant” and “as improved” when necessary. Land and improvements must be valued with the “consistent use” concept.
13	Comparable Sale Data and Analysis	<p>Sales should be selected that have similar attributes of the subject, and described and analyzed so the reader has a clear understanding of how the “opinion of value” is supported. H&BU of comparable sales should be consistent with H&BU of subject.</p> <ol style="list-style-type: none"> i. Provide important attributes of the sale; date, price, terms, legal description, 911 street address when improved, tax ID, land classes, and improvement description. ii. Include a color site aerial or sketch with labels for numerous buildings (dairy, swine, HQ, etc.). iii. Provide color aerial, soil, topographical, permanent plantings and/or other applicable maps. iv. Color photos shall show dwelling and major improvements that contribute to value. v. Disclose how the sale was verified and marketed with a party to the transaction. vi. Provide bare land photos for significant topographical features and permanent plantings. vii. Summarize or include legible copies of the Certificate of Real Estate Value, Multi Listing Service, contracts, carry back mortgages, or other similar supporting documentation (retain documents in your work file). viii. Discuss fixtures and personal property (ensure that adequate justification for classification and valuation of personal property and fixtures is provided).

1 FSA Appraisal Guidelines (Continued)

A Land, Agricultural Improvements, CAFO, Rural Residence, Farm (Continued)

Item	Category	Content Description
13	Comparable Sale Data and Analysis (Continued)	Sale analysis shall easily verify the applicable units of comparison and rates that support the value of the subject. For example; land class ratio, building replacement cost new, derived depreciation rates, improvement contribution, contribution of timber, minerals, water rights, etc., as well as income and expense estimates should all be analyzed consistently and the analysis should support the subject analysis. Describe how land allocations were made.
14	Contracts for Production, Marketing or Other Similar Agreements	<p>Summarize market production contracts, marketing plans, or other similar documents for the subject and sales.</p> <ul style="list-style-type: none"> i. If a market and/or production contract exist in which the value of the subject property is dependent upon the contract (i.e. poultry contract), then an analysis of the relationship of the contract to the subject's real property and how the contract impacts the value of the real property must be explained in the appraisal report. ii. Similar sales with similar contracts should be used to value the subject if a market and/or production contract is in place.
15	Location Map	Location map shall easily locate subject and sales. The location map should provide sufficient detail for the reader to locate the properties if the other maps provided in the report do not have sufficient detail to locate the properties. Roads by name or number may be needed to find the property.
16	Value Approaches	<p>All three approaches to value should be considered and used when necessary for credible assignment results. It is acceptable not to use an approach provided solid justification that the approach is not necessary for credible results.</p> <ul style="list-style-type: none"> i. The Income Approach should be included for agricultural income producing properties. ii. Land classification should be based on the market of the subject and sales. iii. When value adjustments are required for physical characteristics (access, soils, water features, view, topography, drainage, climate, size, shape, site and structure improvements, permanent plantings, etc.), discuss and support from the market. <p>Subject pending sale can't be used as a comparable, but needs to be analyzed and discussed.</p>

1 FSA Appraisal Guidelines (Continued)

A Land, Agricultural Improvements, CAFO, Rural Residence, Farm (Continued)

Item	Category	Content Description
17	Sales Comparison Approach	<p>Provide a sales base within the report to adequately support the analysis.</p> <ul style="list-style-type: none"> i. Units of comparison should be derived from the market. ii. Sales must be analyzed within the report for the reader to understand how the appraiser has applied those units of comparison to the subject. iii. Sales must be analyzed within the report so the reader can understand how the appraiser has applied those units of comparison to the Subject. iv. Explain reasoning for adjustments in the Sales Comparison Approach. v. Reconcile strengths and weaknesses of the sales comparison approach.
18	Cost Approach	<p>Provide a sales base within the report to adequately support the analysis.</p> <ul style="list-style-type: none"> i. Describe construction quality, utility, and condition ii. Provide support for land value and replacement cost new within the appraisal report. iii. Extract depreciation from the sales analysis in the report so the reader can understand the reasoning for applying depreciation rates to the subject. iv. Reconcile strengths and weaknesses of the Cost Approach.
19	Income Approach	<p>Provide a sales base within the report to adequately support the analysis.</p> <ul style="list-style-type: none"> i. Provide support for income, expenses, and rates within the appraisal report. ii. Analyze sales for the applicable rate that is used. iii. Explain reasoning for subject income, expense and rate selection. iv. Reconcile strengths and weaknesses of the Income Approach.
20	Reconciliation	<p>Describe support for the “Opinion of Value” reviewing strengths and weaknesses of each approach to value and discuss the reconciliation. Consider the value of the whole, versus the sum of the parts.</p>
21	Certification	<p>Include the signed Certification compliant with the current USPAP. Include signature(s), State(s) of license, full name of license class, and license number(s), for example, “MN Certified General Real Property License 20000001”. Do not abbreviate license class, such as “CRRPA”.</p>

1 FSA Appraisal Guidelines (Continued)

B Poultry Addendum to FSA Appraisal Guidelines

In addition to the general FSA appraisal guidelines, the following is a supplement specific to poultry appraisals.

Item	Information Element	Content Description
1	Market Description	<p>Summarize the market for poultry operations in the subject area based on contacts with local integrators, lenders, and growers. Determine the amount and range of contract production payments and terms being paid to poultry operators. The description shall discuss the subject integrator as well as other integrators operating in the area.</p>
2	Subject Description	<p>Describe the poultry buildings and fixtures and/or equipment associated with each building in sufficient detail, including the age and condition of each. For existing facilities, state and discuss the actual age and effective age for each and reconcile any differences. Typically, a lower effective age requires detailed documentation of significant upgrades. Identify and document all prior repairs and/or upgrades including cost estimates and year completed. A visual inspection of the interior is necessary to adequately assess the condition for existing facilities.</p> <p>If subject is an existing facility, appraised “as-improved” to include repairs and/or upgrades, document the proposed repairs and/or upgrades including cost estimates. A hypothetical condition should be stated.</p> <p>If the subject is new construction, summarize the actual construction cost quotes and/or estimates associated with the new construction and include in the appraisal copies of quotes and specs sufficient to adequately describe the proposed construction. A hypothetical condition should be stated.</p> <p>Identify the legal permitted capacity. Identify any personal property included on subject and/or sales, and show contributory value separately from real estate.</p> <p>Adequately describe the land and land improvements as well as any other improvements.</p>

1 FSA Appraisal Guidelines (Continued)

B Poultry Addendum to FSA Appraisal Guidelines (Continued)

Item	Information Element	Content Description
3	Poultry Production Contract and/or Agreement	<p>Summarize the contract or proposed grower contract and/or agreement with the integrator (if applicable) for the subject, and under what terms and/or conditions the contract is subject to (such as any repairs or upgrades to the facilities that may be required to obtain the contract). Include income and expense estimates.</p> <p>If the value of the subject property is dependent upon the contract, then an analysis of the relationship of the contract to the subject's real property and how the contract impacts the value of the real property must be explained in the appraisal report.</p>
4	Integrator Requirements	<p>Describe the standards for equipment and buildings required by integrators and whether the subject's poultry houses meet, exceed, or do not meet the integrator's standards. Discuss the compatibility of the subject improvements with requirements of other integrators in the area as well.</p> <p>If the poultry house(s):</p> <ul style="list-style-type: none"> • are no longer in operation, additional discussion is needed • are obsolete, this needs to be explained in the appraisal • can be put back into production, then an estimated cost to cure and bring them in compliance with the integrator's contract standards shall be provided.

1 FSA Appraisal Guidelines (Continued)

B Poultry Addendum to FSA Appraisal Guidelines (Continued)

Item	Information Element	Content Description
5	Approaches to Value	<p>For a poultry appraisal, generally all 3 approaches are applicable and necessary.</p> <p>Analyze the local sales that are available to adequately support the value of the subject's poultry facilities. When there are insufficient local sales; regional sales may be considered. Analyze and adequately support adjustments for locational differences if applicable. Discuss and support the selection of comparable sales.</p> <p>Incorporate the same appraisal methods and techniques to analyze the subject and comparable sales and provided adequate documentation of adjustments to support the subject value conclusion. Include sufficient detail from the sales analysis in the appraisal to support the subject analysis.</p> <p>Units of comparison should be determined from the market, but for poultry appraisals, the most common unit of comparison is square footage of the poultry houses.</p>
6	Sales Comparison Approach	<p>Show direct comparison of subject and sales summarized in a grid. Explain and support all adjustments in sufficient detail. Use a unit of comparison that is understandable and supportable. FSA recommends using value per square foot of poultry houses.</p>
7	Cost Approach	<p>Provide market data to support typical replacement cost new. Use typical cost for replacement cost new calculations, but discuss any differences in actual quotes and/or estimates from typical cost. For existing operations, also provide market data to support typical economic life and to support depreciation rates used.</p> <p>Include the following:</p> <ul style="list-style-type: none"> ● The contributory value of the land components. Include vacant land sales to support the contributory values. ● The contributory value of any site improvements (wells, septic tanks, roads and loading areas, etc.). Discuss whether building pads are included with buildings or with site improvements.

1 FSA Appraisal Guidelines (Continued)

B Poultry Addendum to FSA Appraisal Guidelines (Continued)

Item	Information Element	Content Description
7	Cost Approach (Continued)	<ul style="list-style-type: none"> ● The contributory value and remaining economic life of each building, taking into account physical, functional and external obsolescence. Buildings of like kind, age, and condition can be grouped. See comments under Item 2 above. ● The contributory value and remaining economic life of equipment/fixtures associated with each building, taking into account physical, functional and external obsolescence. Equipment of like kind, age, and condition can be grouped. See comments under item 2 above.
8	Income Approach	Show income and expense projections used in the income approach. Income and expenses should be based on income and expenses extracted from market data for a typical operation. Compare to integrator's projections. Projected income and expenses for other farm related enterprises, if applicable, should be addressed as well. Discuss subject actual income and expenses vs. typical income and expenses if different.
9	Final Value Allocation	Allocate the final value opinion into the contributory value of the component parts for the land, land improvements, and structural improvements (including fixtures and equipment). The contributory value of any personal property included in the value should be shown separately.

1 FSA Appraisal Guidelines (Continued)

C Hog Addendum to FSA Appraisal Guidelines

In addition to the general FSA appraisal guidelines, the following is a supplement specific to hog appraisals.

Item	Information Element	Content Description
1	Market Description	Summarize the market for hog operations in the subject area based on contacts with local integrators, lenders, and growers. Provide a general discussion of the rates and terms being offered by integrators to hog producers. The description shall discuss the subject integrator as well as other integrators operating in the area.
2	Subject Description	<p>Describe the hog buildings and fixtures/equipment associated with each building in sufficient detail including the age and condition of each. For existing facilities, state and discuss the actual age and effective age for each and reconcile any differences. Typically, a lower effective age requires detailed documentation of significant upgrades. Identify and document all prior repairs/upgrades including cost estimates and year completed. A visual inspection of the interior is necessary to adequately assess the condition for existing facilities. If interior inspection is not possible contact the Client for guidance.</p> <p>If the subject is an existing facility, appraised “as-improved” to include repairs/upgrades, document the proposed repairs/upgrades including cost estimates. A hypothetical condition should be stated.</p> <p>If the subject is new construction, summarize the actual construction cost quotes/estimates associated with the new construction and include in the appraisal copies of quotes and specifications sufficient to adequately describe the proposed construction. A hypothetical condition should be stated.</p>

1 FSA Appraisal Guidelines (Continued)

C Hog Addendum to FSA Appraisal Guidelines (Continued)

Item	Information Element	Content Description
2	Subject Description (Continued)	<p>Identify the legal permitted capacity in AUs (animal units). Does the Confined Animal Feed Operation (CAFO) have an approved nutrient / manure management plan that is in compliance, with adequate and available acres? Appraisers should be provided with information related to the operations status as a CAFO and compliance on their nutrient/manure management plan when the information is available. Appraisers should review and discuss this information with the property owner and note any compliance issues.</p> <p>If applicable, discuss the available legal surface and groundwater rights (verification if available) necessary to support the projected hog capacity in the analysis.</p> <p>Discuss manure premiums and/or manure easements (spray field easements/application easements) or other similar issues. Ensure they are adequately addressed in the nutrient/manure management plan.</p>
3	Hog Production Contract/ Agreement	<p>Summarize the contract or proposed grower contract/agreement with the integrator (if applicable) for the subject and under what terms and/or conditions the contract is subject to (i.e. any repairs or upgrades to the facilities that may be required to obtain the contract). Include income and expense estimates.</p> <p>Is the subject contract similar to a typical market contract? If there are significant contract differences between the existing contract (leased fee) and typical market contract (fee simple) that impact value, they should be discussed with the Client and in the report.</p>
4	Integrator Requirements	<p>Describe the standards for equipment and buildings required by integrators and whether the subject's hog building(s) meet, exceed, or do not meet the integrator's standards, if applicable. Discuss the compatibility of the subject improvements with requirements of other integrators in the area as well.</p>

1 FSA Appraisal Guidelines (Continued)

C Hog Addendum to FSA Appraisal Guidelines (Continued)

Item	Information Element	Content Description
4	Integrator Requirements (Continued)	<p>If the hog building(s) are no longer in operation, additional discussion is needed. If the building(s) are obsolete, this needs to be explained in the appraisal. If the building(s) can be put back into production, then an estimated cost to cure to bring them into compliance with the integrator’s contract standards should be provided.</p>
5	Approaches to Value	<p>For a hog appraisal, generally all three approaches are applicable and necessary.</p> <p>Analyze such local sales that are available to adequately support the value of the subject’s hog facilities. When there are insufficient local sales, regional sales may be considered. Analyze and adequately support adjustments for locational differences if applicable. Discuss and support the selection of comparable sales.</p> <p>Include sufficient detail from the sales analysis in the appraisal to support the subject analysis. Units of comparison should be determined from the market.</p>
6	Sales Comparison Approach	<p>Show direct (head to head) comparison of subject and sales summarized in a grid. Explain and support all adjustments in sufficient detail. Use a market unit of comparison that is understandable and supportable. Explain which sales were given the most weight from the direct comparisons for the value opinion.</p>
7	Cost Approach	<p>Provide market (local/cost provider) data to support typical replacement cost new (RCN). Use typical cost for RCN calculations, but discuss any differences in actual quotes/estimates from typical cost. For existing operations, also provide market data to support typical economic life and to support depreciation rates used.</p> <p>Include the following for subject and sales data:</p> <ul style="list-style-type: none"> • The contributory value of the land components. Include vacant land sales to support the contributory values or appropriate appraisal method or technique.

1 FSA Appraisal Guidelines (Continued)

C Hog Addendum to FSA Appraisal Guidelines (Continued)

Item	Information Element	Content Description
7	Cost Approach (Continued)	<ul style="list-style-type: none"> • The contributory value of any site improvements (manure lagoons, wells, septic tanks, roads and loading areas, etc.). They should be consistently analyzed. Describe, discuss and explain • Any significant value differences should explained and discussed. • The contributory value of each building and the contributory value of the fixtures/equipment. Include the RCN, effective age, and remaining economic life. Document the physical, functional and external depreciation calculations.
8	Income Approach	<p>Compare and discuss actual income and expenses from the contract projections to typical market income & expenses. Other projected farm related income and expenses, should be discussed as well.</p> <p>Property should be appraised on a fee simple basis.</p> <ul style="list-style-type: none"> • Discuss selection of cap rates and which sales are given the most weight.
9	Final Value Allocation	<p>Allocate the final value opinion into the contributory value of the component parts for the land, land improvements, and structural improvements (including fixtures and equipment). The contributory value of any personal property included in the value should be shown separately.</p>

1 FSA Appraisal Guidelines (Continued)

D Dairy Addendum to FSA Appraisal Guidelines

In addition to the general FSA appraisal guidelines, the following is a supplement specific to dairy appraisals.

Item	Information element	Content Descriptions
1	Market Description	Summarize the market for milk and dairy products in the subject’s marketing area with emphasis on the number of milk handlers and/or milk cooperatives. Are there sufficient alternatives for milk sales in the local area? Explain the supply and demand factors. The availability of support services for dairying should be addressed in the appraisal report.
2	Subject Description	<p>Describe the following building categories of the dairy operation in sufficient detail and in relation to their utility and contribution to the whole enterprise: describe the livestock facilities design and capacity for cows and young stock, milking facilities, feed storage, machinery & equipment storage, fixtures, personal property, and waste storage and handling. State and discuss the actual ages, effective ages and remaining economic lives for the farm buildings or building categories listed above. Discuss condition and any prior repairs/upgrades to the property’s buildings with actual or estimated costs. Describe farm dwelling(s) and other outbuildings with contributory value.</p> <p>For new construction, summarize the actual construction cost quotes/estimates associated with the new construction and include in the appraisal copies of quotes and specifications that are sufficient to adequately describe the proposed construction.</p> <p>If an existing facility is appraised “as-improved” that will include repairs/upgrades, document the proposed repairs/upgrades and include the estimated cost.</p>

1 FSA Appraisal Guidelines (Continued)

D Dairy Addendum to FSA Appraisal Guidelines (Continued)

Item	Information element	Content Descriptions
2	Subject Description (Continued)	<p>Identify the legal permitted capacity in AUs (animal units). Identify and discuss if the dairy is a confined animal feed operation (CAFO). Does the CAFO have an approved nutrient/manure management plan that is in compliance, with adequate and available acres? Appraisers should be provided with information related to the operations status as a CAFO and compliance on their nutrient/manure management plan when the information is available.</p> <p>Appraisers should review and discuss this information with the property owner and note any compliance issues. Analyze and discuss the market area feed base capacity to support the operation.</p> <p>Discuss the available legal surface and groundwater rights (verification if available) necessary to support the projected dairy capacity in the analysis.</p> <p>Identify and differentiate between the equipment considered personal property and fixtures required for the ongoing farm operation for the subject and/or sales. Show contributory value separately for non-real property items.</p>
3	Approaches to Value	<p>For dairy appraisals, generally all three approaches are applicable and necessary.</p> <p>Analyze available local sales to adequately support the value of the subject’s dairy facilities. When there are insufficient local sales, regional sales may be considered. Analyze and adequately support adjustments for locational differences if applicable. Discuss and support the selection of comparable sales. Sales selected should reflect the attributes of the subject and should be similar operations. Sales verification is the key to the analysis of dairy farm sales and should include the same degree of building description and analysis as listed above under “Subject Description”.</p> <p>Analyze subject and sales in the same manner and include sufficient detail from the sales analysis in the appraisal to support the appraisal. Units of comparison, as determined from the market, should be discussed. Commonly used units of comparison for dairy farms are \$/acre or \$/stall/milk cow.</p> <p>The exclusion of any of the 3 approaches to value must explain why an excluded approach is not necessary for credible results.</p>

1 FSA Appraisal Guidelines (Continued)

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Item	Information	Content Descriptions
4	Sales Comparison Approach	<p>Show direct (head to head) comparison of subject and sales summarized in a grid. Explain and support all adjustments in sufficient detail. Explain how the value opinion was selected from the direct comparisons (i.e. which sales were given the most weight). Comparability of sales should focus on similarities relating to housing (conventional or free stall) and feed (purchased/grown/land base) and/or other similarities that influence value.</p>
5	Cost Approach	<p>Show cost approach calculations including replacement cost new (RCN) estimates and contributory values. Use typical cost for RCN calculations and discuss any differences in actual quotes/estimates from typical cost (if applicable). Provide market data to support typical RCN. Sales analysis should support depreciation rates and typical economic life. Include the following for subject and sales.</p> <ul style="list-style-type: none"> • Show the contributory value of each building with significant contributory value and discuss effective ages and remaining economic life, taking into account physical, functional and external obsolescence. Buildings of like use, age, and condition can be grouped for analysis purposes and should be adequately described. • Show the contributory value of fixtures/equipment and discuss effective age and remaining economic life, taking into account physical, functional and external obsolescence. • Show the contributory value of the land components supported by local sales and state the contributory value of any site improvements (wells, septic tanks, pads and roads) as a separate entry, or as part of the building contributory value. If site improvement value is included as part of the building contributory value, ensure that any value differences are explained and discussed.
6	Income Approach	<p>Cash rent and typical owner/operator are the generally suggested methods used for income approach calculations. If cash rent information is limited, typical owner operator data can be used from dairy farm business summaries of similar sized dairy operations to estimate typical incomes and expenses.</p>

1 FSA Appraisal Guidelines (Continued)

D Dairy Addendum to FSA Appraisal Guidelines (Continued)

Item	Information	Course Description
6	Income Approach (Continued)	<p>Projected income and expenses for other farm enterprises should be addressed as well. Discuss the subject's enterprises actual income & expenses vs. typical when significant differences occur. Property should be appraised on a fee simple basis verse a leased fee basis.</p> <p>Discuss selection of cap rates and which sales are given the most weight. Rate selection should be from similar sales and homogenous data, i.e., cash rents comps or owner/operator mirroring the method used for the subject.</p>
7	Reconciliation & Final Value Allocation	<p>Reconcile the three approaches to value and discuss which approach is given the most weight.</p> <p>Allocate the final value opinion into the contributory value of the component parts for the land, land improvements, and structural improvements (including fixtures and equipment).</p> <p>The contributory value of any non-real property items included in the value should be shown separately and discussed.</p>