

Collateral Evaluation Requirements

Institution:

Date:

This workpaper addresses regulatory requirements for collateral evaluation standards; independence requirements; evaluation requirements; real property evaluations; personal and intangible property evaluations; and professional association membership and competency.

Question	Response	Comment
Collateral Evaluation Standards		
1. Do policies or standards address the following requirements of FCA Regulation 614.4250 related to collateral evaluation standards?		
a. Value the subject property based upon market value as defined in FCA Regulation 614.4240(l) . 614.4250(a)(1)		
b. Presented in a written format. 614.4250(a)(2)		
c. Consider the purpose for which the property will be used and the property's highest and best use, if different from the intended use. 614.4250(a)(3)		
d. Sufficiently descriptive to enable the reader to ascertain the reasonableness of the estimated market value and the rationale for the estimate. 614.4250(a)(4)		
e. Provide sufficient detail (including an identification and description of the property) and depth of analysis to reflect the relevant characteristics and complexity of the subject property. 614.4250(a)(5)		
f. Analyze and report, as appropriate, for real, intangible, and/or personal property, on the following: 614.4250(a)(6) <ul style="list-style-type: none"> ○ The current income producing capacity of the property. 614.4250(a)(6)(i) ○ A reasonable marketing period for the property. 614.4250(a)(6)(ii) ○ The current market conditions and trends that will affect projected income, to the extent such conditions will affect the value of the property. 614.4250(a)(6)(iii) ○ The appropriate deductions and discounts as 		

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<p>they would apply to the property, including but not limited to, those based on the condition of the property, as well as the specialization of the operation and property. 614.4250(a)(6)(iv)</p> <ul style="list-style-type: none"> ○ Potential liabilities, including those associated with any hazardous waste or other environmental concerns. 614.4250(a)(6)(v) 		
<p>g. Include in the evaluation report a certification that the evaluation was not based on a requested minimum valuation or specific valuation or approval of a loan. 614.4250(a)(7)</p> <p><i>Note: For purposes of determining appraisal value as required in Section 1.10(a) of the Act, the definition of market value and the requirements of this subpart shall apply. 614.4250(b)</i></p>		
Independence Requirements		
2. Do policies or standards address the following requirements and prohibitions of FCA Regulation 614.4255 related to independence requirements?		
<p>a. For all personal and intangible property, and for all real property exempted under FCA Regulation 614.4260(c), prohibit any person from: 614.4255(a)</p> <ul style="list-style-type: none"> ○ Performing evaluations in connection with transactions in which such person has a direct or indirect interest, financial or otherwise, in the loan or subject property. 614.4255(a)(1) ○ As a director, vote on or approve a loan decision on which such person performed a collateral evaluation. 614.4255(a)(2) ○ As a director, perform a collateral evaluation in connection with any transaction on which such person made or will be required to make a credit decision. 614.4255(a)(3) 		
<p>b. If the institution's internal control procedures required by FCA Regulation 618.8430 include requirements for either a prior approval or post-review of credit decisions, officers and employees may: 614.4255(b)</p> <ul style="list-style-type: none"> ○ Participate in a vote or approval involving assets on which they performed a collateral evaluation. 614.4255(b)(1) 		

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<ul style="list-style-type: none"> ○ Perform a collateral evaluation in connection with a transaction on which they have made or will be required to make a credit decision. 614.4255(b)(2) 		
<p>c. Except as provided in FCA Regulation 614.4260(c), all evaluations of real property that serve as the primary security for a loan shall be performed by a qualified real estate appraiser who has no direct or indirect interest, financial or otherwise, in the loan or subject property and is not engaged in the marketing, lending, collection, or credit decision processes of any of the following: 614.4255(c)</p> <ul style="list-style-type: none"> ○ A Farm Credit System institution making or originating the loan. 614.4255(c)(1) ○ A Farm Credit System institution operating under common management with the institution making or originating the loan. 614.4255(c)(2) ○ A Farm Credit System institution purchasing an interest in the loan. 614.4255(c)(3) 		
<p>d. Fee appraisers shall be engaged directly by the Farm Credit System institution or its agent, and shall have no direct or indirect interest, financial or otherwise, in the property or transaction. A Farm Credit System institution may accept a real estate appraisal that was prepared by an appraiser engaged directly by another Farm Credit System institution, by a United States Government agency, a Government-Sponsored Enterprise or by a financial institution subject to title XI of FIRREA. 614.4255(d)</p>		
<p>e. No employee who, acting as a State licensed or State certified appraiser, performed a real estate appraisal on any collateral supporting a loan shall subsequently participate in any decision related to the loan purchase. 614.4255(e)</p>		
Evaluation Requirements		
<p>3. Do policies or standards address the following requirements of FCA Regulation 614.4260 related to evaluation requirements?</p>		
<p>a. Valuations of personal and intangible property, as well as real property exempted under FCA Regulation 614.4260(c), shall be performed by</p>		

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qualified individuals who meet the established standards of this subpart and the Farm Credit System institution obtaining the collateral valuation. 614.4260(a)		
b. Appraisals for real estate-related financial transactions with transaction values of more than \$250,000 shall be performed by a qualified appraiser who is a State licensed or a State certified real estate appraiser. 614.4260(b)(1)		
c. Appraisals for real estate-related financial transactions with transaction values of more than \$1,000,000 shall be performed by a qualified appraiser who is a State certified real estate appraiser. 614.4260(b)(2)		
<p>d. An appraisal performed by a State certified or State licensed appraiser is not required for any real estate-related financial transaction in which any of the following conditions are met: 614.4260(c)</p> <ul style="list-style-type: none"> ○ The transaction value is \$250,000 or less. 614.4260(c)(1) ○ The transaction is a “business loan” as defined in FCA Regulation 614.4240(e) that: <ul style="list-style-type: none"> ▪ Has a transaction value of \$1,000,000 or less. 614.4260(c)(2)(i) ▪ Is not dependent on income derived from the sale or cash rental of real estate as the primary source of repayment. 614.4260(c)(2)(ii) ○ A lien on real property has been taken as collateral in an abundance of caution, and the application, when evaluated on the five basic credit factors, without considering the subject real estate, would support the credit decision that was based on other sources of repayment or collateral. 614.4260(c)(3) ○ A lien on real estate is not statutorily required and has been taken for purposes other than the real estate's value. 614.4260(c)(4) ○ Subsequent loan transactions (which include but are not limited to loan 		

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<p>servicing actions, reamortizations, modifications of loan terms, and partial releases), provided that either:</p> <ul style="list-style-type: none"> ▪ The transaction does not involve the advancement of new loan funds other than funds necessary to cover reasonable closing costs; or 614.4260(c)(5)(i) ▪ There has been no obvious and material change in market conditions or physical aspects of the property that threatens the adequacy of the Farm Credit System institution's real estate collateral protection, even with the advancement of new loan funds. 614.4260(c)(5)(ii) <p>○ A Farm Credit System institution purchases a loan or an interest in a loan, pool of loans, or interests in real property, including mortgage-backed securities, provided that:</p> <ul style="list-style-type: none"> ▪ The appraisal prepared for each loan, pooled loan, or real property interest, when originated, met the standards of this subpart, other Federal regulations adopted pursuant to FIRREA, or the requirements of the government-sponsored secondary market intermediaries under whose auspices the interest is sold; and 614.4260(c)(6)(i) ▪ There has been no obvious and material change in market conditions or physical aspects of the property that would threaten the Farm Credit System institution's collateral position. 614.4260(c)(6)(ii) <p>○ A Farm Credit System institution makes or purchases a loan secured by real estate, which loan is guaranteed by an agency of the United States Government and is supported by an appraisal that conforms to the requirements of the guaranteeing</p>		

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<p>agency. 614.4260(c)(7)</p> <p><i>Note: To qualify for exceptions in FCA Regulations 614.4260(c)(1) through (c)(7), the institution must have documentation justifying the use of such exceptions in the applicable loan file(s). In addition, the institution must document that the repayment of a “business loan” is not dependent on income derived from the sale or cash rental of real estate. FCA Regulation 614.4260(c)(7)</i></p>		
<p>e. FCA reserves the right to require an appraisal under this subpart whenever it believes it is necessary to address safety and soundness issues. 614.4260(d)</p>		
<p>f. The requirements of this subpart are satisfied by the use of State certified or State licensed appraisers from any State provided that: 614.4260(e)</p> <ul style="list-style-type: none"> ○ The appraiser is qualified to perform such appraisals. 614.4260(e)(1) ○ The applicable Farm Credit System institution has established policies providing for such interstate appraisals. 614.4260(e)(2) ○ The applicable State appraiser licensing and certification agency recognizes the certification or license of the appraiser's State of permanent certification or licensure. 614.4260(e)(3) 		
Real Property Evaluations		
<p>4. Do policies or standards address the following requirements of FCA Regulation 614.4265 related to real property evaluation requirements?</p>		
<p>a. Real estate shall be valued on the basis of market value. 614.4265(a)</p>		
<p>b. Market value shall be determined by a reasonable valuation method that: 614.4265(b)</p> <ul style="list-style-type: none"> ○ Considers the income capitalization approach, the sales comparison approach, and/or the cost approach, as appropriate, to determine market value. 614.4265(b)(1) ○ Explains and documents the elimination of any approach not used. 614.4265(b)(2) ○ Reconciles the market values of the applicable approaches. 614.4265(b)(3) 		
<p>c. At a minimum, the institution shall develop and document the evaluation of the income and debt</p>		

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<p>servicing capacity for the property and operation where the transaction value exceeds \$250,000 and the real estate taken as collateral is: 614.4265(c)</p> <ul style="list-style-type: none"> ○ An integral part of, and supports the principal source of, loan repayment; or 614.4265(c)(1) ○ Not an integral part of, and does not support the principal source of, loan repayment, but has demonstrable rental market appeal, is statutorily required, and fully or partially constitutes an integral part of an agricultural or aquatic operation. 614.4265(c)(2) 		
<p>d. The income-earning and debt-servicing capacity established under FCA Regulation 614.4265(c) on such properties shall be documented as part of the credit analysis for any related loan action, whether or not the income capitalization approach value is used as the basis for the market value conclusion stated in the evaluation report. 614.4265(d)</p>		
<p>e. Collateral closely aligned with, an integral part of, and normally sold with real estate (fixtures) may be included in the value of the real estate. All other collateral associated with the real estate, but designated as personal property, shall be evaluated as personal property in accordance with FCA Regulations 614.4250 and 614.4266. 614.4265(e)</p>		
<p>f. The evaluation shall properly identify all nonagricultural influences, including, but not limited to, urban development, mineral deposits, and commercial building development value, and the reasoning supporting the evaluator's highest and best-use conclusion. 614.4265(f)</p>		
<p>g. Where an evaluation of real property is completed by a fee appraiser, as defined in FCA Regulation 614.4240(g), the institution's standards shall include provisions for periodic collateral inspections performed by the institution's account officer or appropriate designee. 614.4265(g)</p>		
Personal and Intangible Property Evaluations		
<p>5. Do policies or standards address the following requirements of FCA Regulation 614.4266 related to personal and intangible property evaluation requirements?</p>		
<p>a. Personal property and intangibles shall be valued</p>		

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on the basis of market value in accordance with the institution's evaluation standards and policies. 614.4266(a)		
b. Personal property evaluations shall include a source of comparisons of value (i.e., equipment dealer listings, Blue Book, market sales reports, etc.) and a description of the property being evaluated, including location of the property and, where applicable, quantity, species/variety, measure/weight, value per unit and in total, type of identification (such as brand, bill of lading, or warehouse receipt), quality, condition, and date. 614.4266(b)		
c. Evaluations of intangibles shall include a review and description of the documents supporting the property interests and the marketability of the intangible property, including applicable terms, conditions, and restrictions contained in the document that would affect the value of the property. 614.4266(c)		
d. Where an evaluation of personal or intangible property is completed by a fee appraiser, as defined in FCA Regulation 614.4240(g) , the institution's standards shall include provisions for periodic collateral inspections and verification by the institution's account officer or appropriate designee. 614.4266(d)		
e. When a Farm Credit System institution deems an appraisal necessary, personal or intangible property shall be appraised in accordance with procedures and standards established by the institution by individuals deemed qualified by the institution to complete the work under the USPAP Competency and Ethics Provisions. 614.4266(e)		
Professional Association Membership & Competency		
6. Do policies or standards address the following requirements of FCA Regulation 614.4267 related to professional association membership and competency requirements?		
a. A State certified appraiser or a State licensed appraiser may not be excluded from consideration for an assignment for a real estate-related transaction solely by virtue of membership or lack of membership in any particular appraisal organization. 614.4267(a)		

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b. All staff and fee evaluators, including appraisers, performing evaluations in connection with real, personal, or intangible property taken as collateral in connection with extensions of credit must meet the qualification requirements of this subpart. However, an evaluator (as defined in FCA Regulation 614.4240(n)) may not be considered competent solely by virtue of being certified, licensed, or accredited. Any determination of competency shall be based on the individual's experience and educational background as they relate to the particular evaluation assignment for which such individual is being considered. 614.4267(b)		

Other Comments:

This workpaper is not intended to create any rights, substantive or procedural, enforceable at law or in any administrative proceeding. While the workpaper was carefully reviewed for applicability and accuracy, changes may occur in the wording or interpretation of laws and regulations. If a situation arises where the workpaper becomes inconsistent with applicable laws or regulations, the requirement of the laws or regulations will prevail. Examination scope may vary between institutions. On a particular examination activity, the workpaper may not pertain to all factual situations or interpretations, additional concerns or issues may be addressed that are not covered in the workpaper, and some portions of the workpaper may not be used.