



# MountainSeed General Guidelines for Financial Institutions

## Residential Housing One- to Four-Unit Appraisal Services

### Introduction

These general guidelines are to be used by all appraisers engaged by MountainSeed Appraisal Management, LLC ("MountainSeed") in providing quality residential housing one- to four-unit appraisals. All engaged appraisals must conform to the following:

1. Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and all appraisal regulations promulgated thereunder, including, without limitation, Office of the Comptroller of the Currency ("OCC") Real Estate Lending and Appraisals Regulations, 12 C.F.R. § 34; Board of Governors of the Federal Reserve System ("FRB") Appraisal Standards for Federally Related Transactions, 12 C.F.R. § 225.61–67; Federal Deposit Insurance Corporation ("FDIC") Appraisal Regulations, 12 C.F.R. § 323; Office of Thrift Supervision ("OTS") Appraisals Regulations, 12 C.F.R. § 564, as may be enforced by the applicable federal agency; and the National Credit Union Administration ("NCUA") Appraisals Regulations, 12 C.F.R. § 722.
2. Guidelines issued in connection with the legislation and implementing regulations described above, including without limitation, the final Interagency Appraisal and Evaluation Guidelines issued on December 2, 2010 by the Office of the Comptroller of the Currency ("OCC"), Federal Reserve Board ("FRB"), Federal Deposit Insurance Corporation ("FDIC"), Office of Thrift Supervision ("OTS") and National Credit Union Administration ("NCUA"), the Interagency FAQs on the Agencies Appraisal Regulations and Interagency Statement on Independence of Appraisal and Evaluation Functions (see, for example, FRBs SR 18-9), and the Interagency FAQs on Residential Tract Development Lending (see, for example, FRBs SR 05-14).
3. Property appraisal and independence provisions of the Truth in Lending Act ("TILA"), the Real Estate Settlement Procedures Act ("RESPA"), the Equal Credit Opportunity Act ("ECOA"), the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank"), and the implementing regulations, including, without limitation, Regulation Z (including the interim final rule issued by the FRB on October 18, 2010), Regulation X and Regulation B.
4. Standards for real estate appraisals established by the state, territory, or district regulatory board with authority over the assignment.
5. All appraisal guidelines and requirements, including the Appraisal Independence Requirements ("AIR"), adopted by Fannie Mae and Freddie Mac.
6. For loans insured by the Federal Housing Administration ("FHA"), all independence and appraisal requirements imposed by the FHA or another government agency or body with authority over appraisals completed in connection with FHA loans, including without limitation as described in the following Mortgage Letters: 2009-28, 2009-29, 2009-30, and 2009-41.

7. For loans originated in connection with a program of the United States Department of Agriculture – Rural Development (“USDA-RD”), all appraisal guidelines and requirements imposed by the USDA-RD or another government agency or body with authority over appraisals completed in connection with that program.
8. MountainSeed General Guidelines for Financial Institutions – Residential Housing One- to Four-Unit Appraisal Services (i.e., this document).
9. Special Requirements for certain property types referenced in the engagement letter for this assignment.

These general guidelines are hereby incorporated by reference into and shall be considered for all purposes a part of, any engagement letter entered by MountainSeed.

Appraisers should communicate all questions regarding these guidelines or the engaged assignment to MountainSeed.

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## Report Format

The Uniform Standards of Professional Appraisal Practice (“USPAP”) identifies two report options: Appraisal Report and Restricted Appraisal Report. Unless otherwise noted in the engagement letter, MountainSeed requires an Appraisal Report. Appraisal Reports are the appropriate report option in most circumstances since the Interagency Appraisal and Evaluation Guidelines require all valuations to contain *“sufficient information and analysis to support the institution’s decision to engage in the transaction.”* The Restricted Appraisal Report is not a good reporting format for Federally Related Transactions since USPAP allows all support to be contained in the appraiser’s work file, not in the actual report delivered to the client. Regardless of the report format, all appraisals must comply with the reporting requirements indicated in Standard 2 of USPAP. Each engagement letter will specify the specific form (i.e., current FNMA form, land form, or narrative).”

## “As Is” Market Value

All appraisals involving Federally Related Transactions are required to include an “As Is” Market Value. The “As Is” Market Value is the value the property in its current physical condition, use, and zoning as of the appraisal’s effective date

### Guidance Involving New Construction

For assignments completed on a form, inserting a value in the land value field of the Cost Approach is not sufficient. A clear statement regarding the “As Is” Market Value must be included in the text addendum, along with an explanation of the methods used and appropriate support.

### Guidance Involving Renovations

Providing a new set of comparables is not necessary or expected. It is acceptable to arrive at an “As Is” Market Value by deducting the renovation costs from the “Subject to” value estimate. If appropriate, entrepreneurial profit should also be deducted.

## Appraisal Content Requirements

The requirements outlined in the following pages correspond to sections of the Appraisal Report and are applicable for an Appraisal Report format. All Appraisal Reports should contain sufficient supporting documentation with all pertinent information reported so that the appraiser’s logic, reasoning, judgment, and analysis in arriving at a conclusion demonstrates a credible assignment result.

As noted on the first page of this document, Appraisal Reports prepared for MountainSeed must conform to USPAP and other regulatory requirements. The following requirements are included for emphasis.

### Extraordinary Assumptions and Hypothetical Conditions

Any extraordinary assumptions and hypothetical conditions must be labeled accordingly and separated from the general assumptions and limiting conditions. The extraordinary assumptions and hypothetical conditions affecting the assignment should be clearly and conspicuously stated and referenced in the appraisal report. It is inappropriate to conclude to an “As Is” Market Value that is subject to a hypothetical condition.

## Exposure Time

Provide an opinion of a reasonable exposure time linked to the value opinion for the subject property. The exposure time can be based on items such as statistical information about days on market, information gathered through sales verification, or interviews with market participants.

## Subject Section

- If the borrower name or subject property address, city, or zip code differs from what is stated in the engagement letter or the sales contract, the appraisal must identify the difference(s) and disclose the sources used for the correct name and/or address in the appraisal. USPS format is required for all UAD orders.
- A statement as to whether the utilities are on is required on vacant homes.
- If the property is subject to a leasehold estate, the appraisal must state if the leasehold interest is common for the area and if the marketability is affected. The appraisal must detail the terms, conditions and restrictions of the ground lease and provide at least one leasehold comparable.

## Contract

The appraisal should report and analyze any prior sale and/or current agreement of sale, option, or listing. If under contract, a fully executed agreement should be obtained, along with all disclosures and addendum.

## Neighborhood

Neighborhood boundaries must be defined. This section should identify how the characteristics relate to the subject property. Land use and growth rates must be analyzed as well as the subject's market or sub-market areas. At a minimum, this section of the Appraisal Report should contain the following:

- Facts and statistics should be analyzed in relation to the subject and the specific assignment.
- The subject location should be adequately analyzed regarding linkages, land use, and the direction and rate of neighborhood and city growth.
- The subject's market should be defined.
- Historical market trends should be provided and analyzed.
- Supply and demand should be discussed in the level of detail commensurate with the purpose of the appraisal and complexity of the assignment.

## Site Description

This section of the report should address the following factors for the subject site:

- The site should be adequately described.
- The zoning must be provided and discussed. It must be clearly communicated whether the current or proposed use is conforming or non-conforming. If the property is a legal non-conforming use, a statement must be provided as to whether the improvements can be rebuilt if destroyed and whether this has an adverse effect on marketability.
- The Appraisal Report should discuss relevant characteristics and summarize positive or negative factors that impact the site value.

- If public water and/or sewer is not available to the site, the appraisal must comment if this is common and/or typical for the area, if it has any impact on marketability, if this meets community standards, and if there is market acceptance.
- If the street is private, the following explanations are required: 1) the impact on marketability, 2) if a road agreement exists, 3) named entity who maintains the road, and 4) maintenance fees.

## Highest and Best Use

The Appraisal Report should clearly evaluate the physically possible, legally permissible, financially feasible, and maximally productive uses of the subject property as vacant and as improved. Immediately contact MountainSeed if you determine the Highest and Best Use is different than the property type stated in the engagement letter.

## Improvements

At a minimum, this section of the report should address the following factors for the subject improvements.

- Functional utility or utility of design/layout
- Presence or absence of deferred maintenance
- Current use and design; quality and type of construction
- Year built and effective age
- Interior/exterior construction details
- Current condition and the impact of any proposed changes
- Synergy with surrounding properties detailed.
- If the effective age and year built of the subject are substantially different, an explanation must be provided in the addendum.
- If the subject property has any additions or conversions, the appraisal must state if they are legal, permitted, and constructed in a "workmanlike" manner and if they have any effect on marketability.
- If there are any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property, an explanation of the cost to cure along with appropriate photo(s) are required.
- For assignments with interior inspections, or for land assignments, a photo of all outbuildings is required. The appraisal should address whether the foundation of each outbuilding is permanent, or if the structure is portable.

When performing an appraisal of a dwelling that contains an accessory unit, the following must be included in the report:

- The specific zoning classification of the subject property.
- Report whether the property complies with current zoning. If the use is not permitted by the local zoning ordinance, the appraisal must state if the accessory unit is legal or illegal.
- Report whether there is interior access between the main living unit and the accessory unit. An explanation is required whether the area is included in the GLA. The appraisal should also comment if the accessory units are common and typical in the subject market area.
- The appraisal should demonstrate that accessory units are common to the area by including at least three comparables with accessory units, preferably closed sales. If three closed sales are not available, include pending sales, active listings, or any combination. If an additional kitchen is

observed during inspection, report whether it is a component of an accessory unit and whether it appears to be tenant occupied or rented.

## Approaches to Value

The goal of the valuation process is to develop a well-supported value conclusion that reflects all pertinent factors that influence the market value of the property being appraised. To achieve this, the appraiser must consider the three approaches to value and employ and weigh the approach, or approaches, that are considered the most credible. If any approach is not utilized, the appraiser must explain the reason for the exclusion of that approach. In all cases, the scope of work must be understood prior to engagement.

## Sales Comparison Approach

A major premise of the Sales Comparison Approach is that an opinion of the market value can be supported by studying the market's reaction to comparable and competitive properties. Comparative analysis focuses on similarities and differences at the property and transaction level that affect value. Specific elements of comparison include property rights, financial terms, conditions of sale, market conditions, location, and physical characteristics.

- All properties located in a changing market require at least one relevant listing.
- An adequate number of sales should be analyzed to support the value conclusion.
- Properties that are under contract may be included if sufficient information from reliable sources is available.
- The comparables must be confirmed with a party (or parties) directly involved in the transaction and cited in the report. If sales cannot be confirmed, the Appraisal Report must disclose this and provide the data source.
- Comparables must be relevant for the assignment and distinguish similar, inferior, or superior elements.
- Support and rationale for the adjustments must be provided in a narrative discussion. Restating the adjustments used in the grid is not sufficient.
- The appraisal must comment on any total line adjustment of any comparable that exceeds 10% of the sale price for that comparable, or total net adjustment of any comparable that exceeds 15% of the sale price for that comparable, or any gross adjustment of any comparable that exceeds 25% of the sale price. The appraisal must address the necessity for the use of that comparable and state which specific comparable(s) exceeds the guideline.
- Substantial adjustments must be supported in greater detail. If an adjustment is significantly larger, the sale may not be comparable to the subject. If substantial adjustments are applied to the sales, the report must address the research undertaken to find sales and indicate why more comparable sales were not available for analysis.
- For new construction in the same subdivision, or condominium conversions in the same complex, at least one sale must be included that is outside the control of the builder or developer.
- Both adjusted and unadjusted sale prices should bracket the value. If it is not possible to bracket by the unadjusted sale price, an explanation is required in addition to a discussion of whether the subject is over or under-improved.
- It is advisable to bracket sales using dwelling size and all other major items whenever possible. If bracketing is not possible, the appraiser should provide an explanation as to how the adjustments were derived.

## Cost Approach

The source(s) used to estimate costs must be disclosed.

Typical cost sources are as follows:

- A cost index (such as *Marshall & Swift Valuation Service* or *Dwelling Cost* ) may be used to estimate costs.
- Cost comparables, if available, are also a good source. If used, there must be a sufficient number and be presented in sufficient detail to allow the reader to understand their comparability to the subject property. Details such as square footage and the relevant date applicable to the costs should be provided for comparison purposes.
- For relatively new properties, the original costs should be obtained and compared to the current cost comparables, or the indicated cost, using an index.

Soft costs must be accounted for and supported. Market-based entrepreneurial profit must be considered and applied if appropriate. All forms of depreciation must be considered and analyzed and, if present, incorporated into the analysis. The analysis must be consistent with the information and conclusions presented in the Subject Property Description.

For proposed or recent construction, the Cost Approach must be prepared unless the engagement letter indicates this approach is unnecessary.

The land value must be supported by recognized methods and techniques.

**It is not acceptable to provide an Appraisal Report with the Cost Approach only.** It is extremely unusual for MountainSeed to accept an Appraisal Report which includes only a Cost Approach. Contact MountainSeed if you have any questions related to this restriction prior to completing the assignment.

## Income Approach

The Income Approach must be completed on all 2-4 unit properties or when it is applicable and necessary.

## Other Valuation Issues

### Vacant Land and/or Vacant Lot(s)

- Photos of any structure located on the subject site are required and must be included within the report.
- Include all necessary USPAP requirements with the report, including, but not limited to: the scope of work, the intended use and user, the definition of Market Value, the statement of assumptions and limiting conditions and certifications, prior services disclosure, and exposure time.



- The Appraisal Report must include the listing and sales history of the subject over the prior 36 months, the 12-month prior sales history of the comparable sales, an analysis of any prior sales of the subject, and an analysis of the current purchase agreement, if applicable.

## Photographs, Maps, and Exhibits

If available/applicable or unless otherwise noted in the engagement, the following exhibits must be included in the report:

- Interior and exterior photographs of the subject property
- Interior photographs, must, at a minimum, include the following: kitchen, all bathrooms, main living areas, examples of physical deterioration (if present), and examples of recent updates (i.e., restoration, remodeling & renovation, if present)
- Original/current front view photos of all comparable sales, listings, and pending sales are required
- Regional and neighborhood maps
- Location maps of comparable land sales, improved sales, and rent comparables
- A sketch of the improvements is required. All rooms must be labeled (bedroom, baths, living room, etc.) It must include exterior dimensions and calculations demonstrating how the estimate for GLA was derived. A scan of the floor plan and/or builder prints is sufficient provided it is a clear copy. The appraiser must verify the GLA stated on the blueprints and state this in the report. If the order indicates the appraisal is for Fannie Mae or Freddie Mac, the appraiser's calculation of GLA must be shown.
- Detailed construction budget, plans, and specifications for proposed properties or those undergoing renovation
- Flood zone map (including panel number) with subject property noted
- Legal description (if in the unusual situation that it is not available, then an adequate description must be provided)
- Any other pertinent information needed to support or understand the report analysis
- Copies of current and valid state certifications or licenses for all signatories
- Assessor's plat map or survey should be included if available

## Definitions

**“As Is” Market Value** – The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal’s effective date.<sup>1</sup>

**Extraordinary Assumption** – An assignment-specific assumption as of the effective date regarding uncertain information used in the analysis, which, if found to be false, could alter the appraiser’s opinions or conclusions.<sup>2</sup>

**Hypothetical Condition** – A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of the analysis.<sup>3</sup>

**Market Analysis** – The study of supply and demand in a specific area for a specific type of property.<sup>4</sup>

**Market Value** – The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from the seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in the U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.<sup>5</sup>

**Prospective Market Value Upon Completion** – The market value of property as of a future date when all construction is expected to be completed. It is based on market conditions forecasted to exist as of the completion date. This value premise assumes the project is complete and ready to lease to individual tenants.<sup>6</sup>

**Prospective Opinion of Value** – A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specified future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sell-out or a stabilized level of long-term occupancy.<sup>7</sup>

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<sup>1</sup> *Interagency Appraisal and Evaluation Guidelines*, December 2010, Appendix D

<sup>2</sup> *Uniform Standards of Professional Appraisal Practice*, 2018-2019 Edition, (Washington, D.C: The Appraisal Foundation), Definitions, 4

<sup>3</sup> *USPAP 2018-2019 Edition*, Definitions, 4

<sup>4</sup> *The Dictionary of Real Estate Appraisal*, 6<sup>th</sup> Edition, (Chicago: Appraisal Institute), s.v. “market analysis.”

<sup>5</sup> Federal Register, Volume 55, 12 C.F.R Part 34.42(g), Page 34696, August 24, 1990, as amended at Federal Register 57 Page 12202, April 9, 1992; Federal Register, Volume 59, Page 29499, June 7, 1994.

<sup>6</sup> Compiled and summarized from several industry sources.

<sup>7</sup> *The Dictionary of Real Estate Appraisal*, 6<sup>th</sup> Edition, (Chicago: Appraisal Institute), s.v. “prospective opinion of value.”

**Replacement Cost** – The estimated cost to construct, at current prices as of a specific date, a substitute for a building or other improvements, using modern materials and current standards, design, and layout.<sup>8</sup>

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<sup>8</sup> Ibid., s.v. “replacement cost.”