

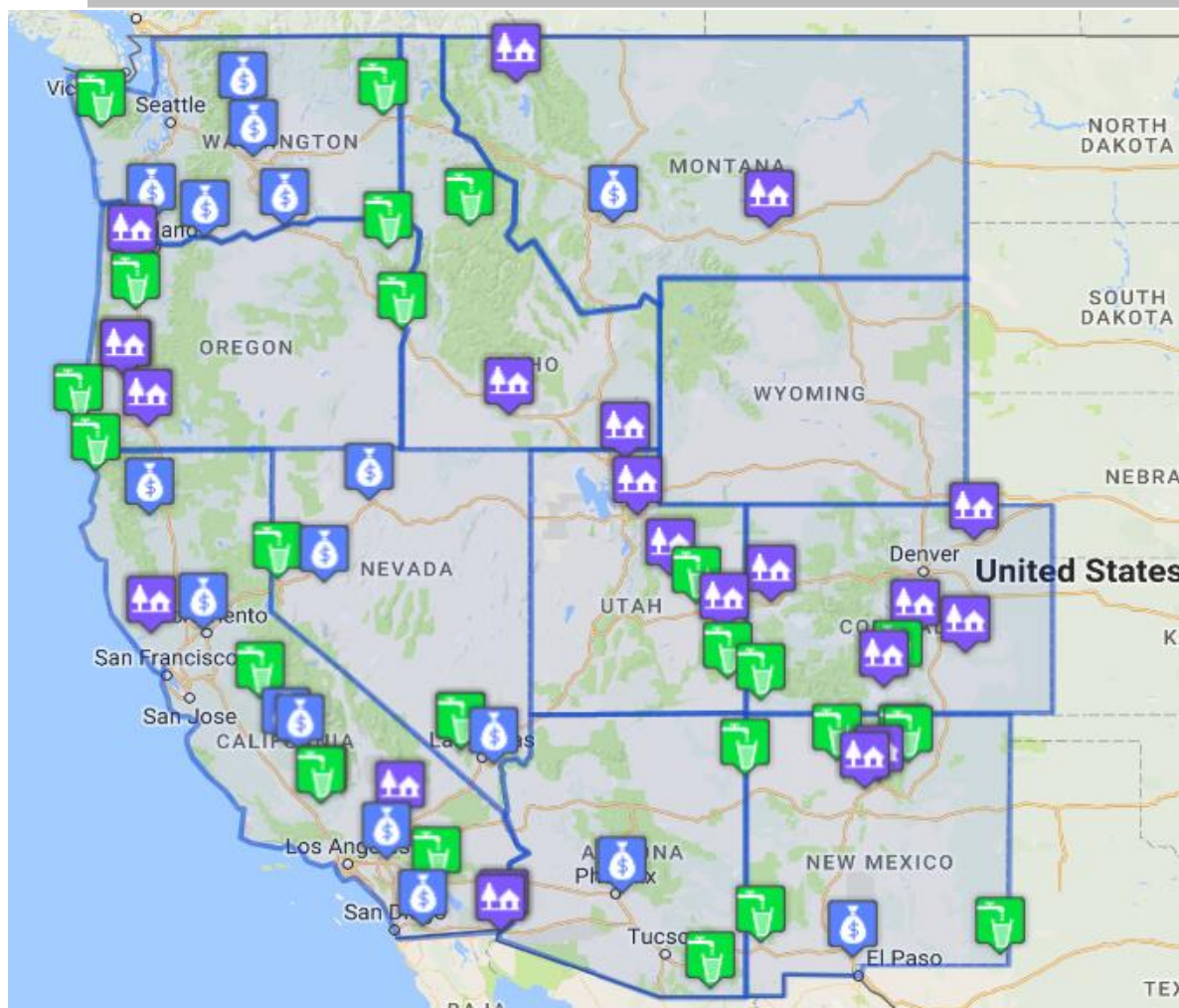


Getting Fair Appraisals February 2020

Who Are We?

- Non-profit organization founded in 1978
- Headquartered in Sacramento, CA
- Serve 13 western states and western Pacific

Service Area



- Alaska
- Arizona
- California
- Colorado
- Hawaii
- Idaho
- Montana
- Nevada
- New Mexico
- Oregon
- Utah
- Washington
- Wyoming
- Western Pacific

Who Are Our Clients?

- Non-Profit Organizations/CHDO's
- Tribal Entities
- Local Governments
- Water and Wastewater Associations
- Public Housing Authorities

Today!

- Rural Development updates
- High Cost Area Challenges
- Appraisal Trends

Outcomes

- Understanding the appraisal process
- Review RD's guidelines, policies and the process to hire Appraisers
- Identify solutions to the current challenges



Rural Development
U.S. DEPARTMENT OF AGRICULTURE

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Appraising Mutual Self-Help Housing

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Rural Housing Service, Program Support Services

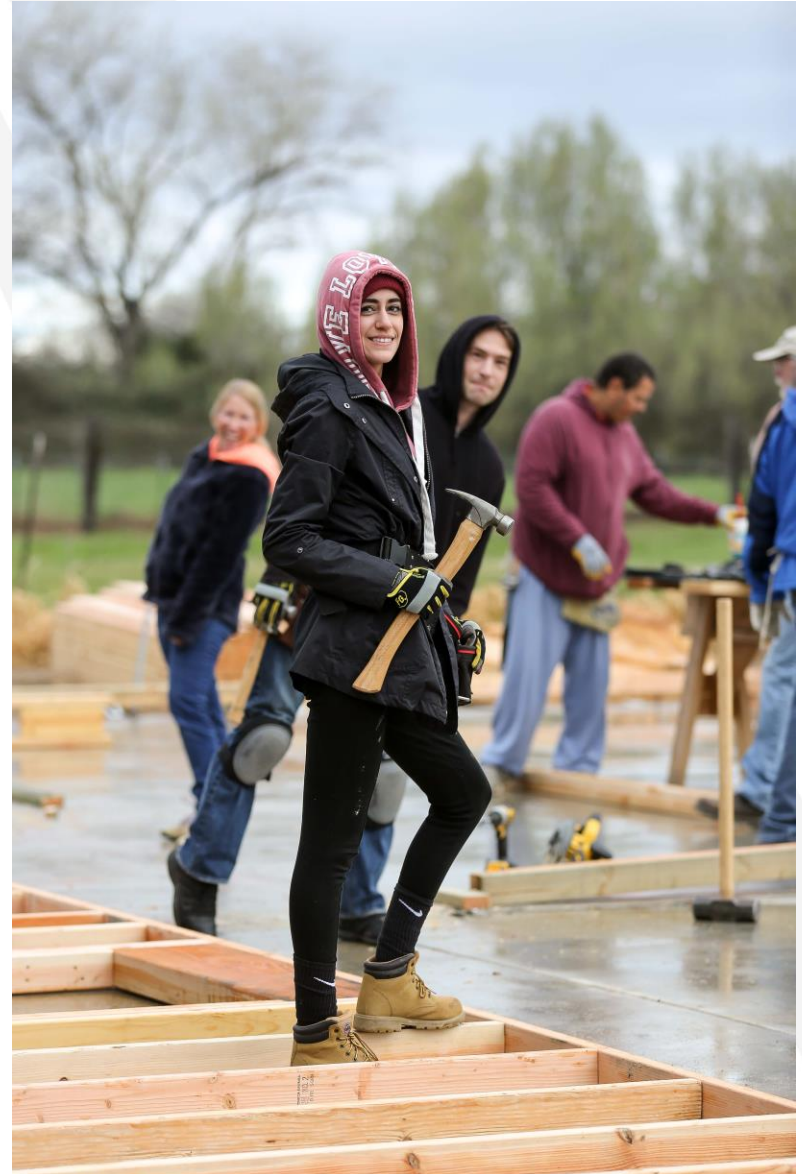
What is the RD Mutual Self-Help Housing Program?

Handbook 1-3550 Defines the Mutual Self-Help Program

The Mutual Self-Help Program, is a housing program utilizing supervised labor performed by borrowers as part of the construction process. Construction conducted under the program is supervised by technical experts to assure the quality of its completion.



Self-Help Housing Is About People!



Are Appraisals Required for Mutual Self-Help Housing?

YES

Regulatory Guidance for Direct Single Family Loans

7CFR PART 3550—DIRECT SINGLE FAMILY HOUSING LOANS AND GRANTS

§3550.62 Appraisals.

(a) Requirement. An appraisal is required when the debt to be secured exceeds \$15,000 or whenever RHS determines that it is necessary to establish the adequacy of the security. Appraisals must be made in accordance with the Uniform Standards of Professional Appraisal Practices.

- Appraisers must hold an appraisal license in the state in which the subject property is located. (Licensed, Certified Residential or Certified General)
- Appraisers must be competent to perform the appraisal assignment.
- Appraisals will be reviewed by RD through a combination of administrative reviews and technical reviews.

Regulatory Guidance for Direct Single Family Loans

Handbook-1-3550

5.23 APPRAISALS IN REMOTE RURAL AREAS, ON TRIBAL LANDS, OR WHERE THERE IS A LACK OF CONVENTIONAL MARKET ACTIVITY

In remote rural areas, on Tribal lands, or areas with a lack of conventional lending market activity it may be difficult to obtain adequate comparable sales to appraise a property. In these areas, the sales comparison approach is not required. Instead, Form 1007, Marshall and Swift Square Foot Appraisal Form must be used.

Regulatory Guidance for Direct Single Family Loans

Remote rural areas are identified by the State Director and are defined as areas with these types of characteristics:

- Scattered population;
- Low density of residences;
- Lack of basic shopping facilities;
- Lack of community and public services and facilities; and
- Lack of comparable sales data.

Regulatory Guidance for Direct Single Family Loans

The results of the cost analysis completed using Form 1007 should be documented on the Uniform Residential Appraisal Report and efforts to obtain comparable market data must be documented in lieu of the sales comparison approach. External depreciation based on the remoteness of the site must not be considered; however, factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations should be included.

Appraisal of properties constructed under the Mutual Self-Help Program should consider construction, materials and finish will be completed in a workmanlike and professional manner.







Regulatory Guidance for Direct Single Family Loans

RD has prepared a detailed Statement of Work for completion of appraisals which can be found in:

Handbook-1-3550 Attachment 5-A

<https://www.rd.usda.gov/sites/default/files/3550-1chapter05.pdf>

Appraisal Challenges



Challenges with Appraisals for Mutual Self-Help

Construction Costs vs Value

Construction costs in strong housing markets can often outpace value. Appraisals are always reflecting “back” on sales that have happened before the date of appraisal.

Sweat equity can be affected by rising costs when compared with value.

Challenges with Appraisals for Mutual Self-Help

Selection of Appraisers

Appraisers can be difficult to locate who appraise in Rural Markets.

Appraising in Rural Markets is a challenge.

Comparable sales are often limited.

Understanding families build houses under Technical Supervision.

Understanding Sweat-Equity can be an issue.

Many appraisers may lack experience in preparation of appraisal reports for Mutual Self-Help Housing.

Challenges with Appraisals for Mutual Self-Help

Ongoing Efforts to Obtain Accurate Appraisals

Appraisers can be difficult to locate who appraise in Rural Markets.

- RD has contracted with two National Appraisal Vendors.

Appraising in Rural Markets is a challenge.

- RD provides the Vendors with names of appraisers.

Understanding families build houses under Technical Supervision.

Understanding Sweat-Equity can be an issue.

- Working with the Appraisal Vendors Chief Appraisers to Educate and Train.

Challenges with Appraisals for Mutual Self-Help

Challenges are Numerous

RD Staff works with our partners everyday to overcome these challenges.

The RD Appraisal Review team continues to work with our vendors and appraisers.

Our goal is to obtain accurate and timely appraisals for both our Applicants and the Agency.

Together, America Prospers







Rural Development

U.S. DEPARTMENT OF AGRICULTURE

USDA is an equal opportunity provider, employer, and lender.



CHIP

Community Housing Improvement Program

Jill Quezada

Director of Homeownership

Who are we?

- Community Housing Improvement Program, Incorporated (CHIP), a non-profit affordable housing provider located in Chico, CA.
- We have been a USDA Rural Development grantee since 1981. We have helped to build nearly 2000 homes utilizing the mutual self-help housing model in our northern California service area.
- After the Carr and Camp Fires occurred within our service area, we quickly became a high cost area.

Why are fair appraisals important?

- Allow you to set your sales prices high enough that all of the costs to build (including land and fees) are covered
- Allow you to provide reasonable sweat equity for the homeowner
- Allow for potential profit for the developer

Why are fair appraisals in high cost areas particularly challenging to obtain?

- When costs increase quickly, values often lag behind
- Existing housing inventory is often used for comps, which doesn't reflect new construction costs
- The mutual self-help housing model requires:
 - ✓ Sales up front
 - ✓ Lengthy house construction period
 - ✓ Appraisals obtained before the loan approval
 - ✓ Costs can increase during this time period, causing cost overruns

Sweat Equity

- The monetary value of sweat equity is:
Difference between the value of the home and the sales price
- Therefore, sweat equity can be:
 - ✓ Unpredictable
 - ✓ A product of a fluctuating market
 - ✓ Determined by current values and costs

Sweat Equity Cont...

- When costs increase and values haven't had time to catch up, it can be challenging to have significant sweat equity
- When costs are high, we have found it impossible to reach RD's target goal of:

Sweat equity = TA \$ per EU

Tips for obtaining fair appraisals - High cost areas

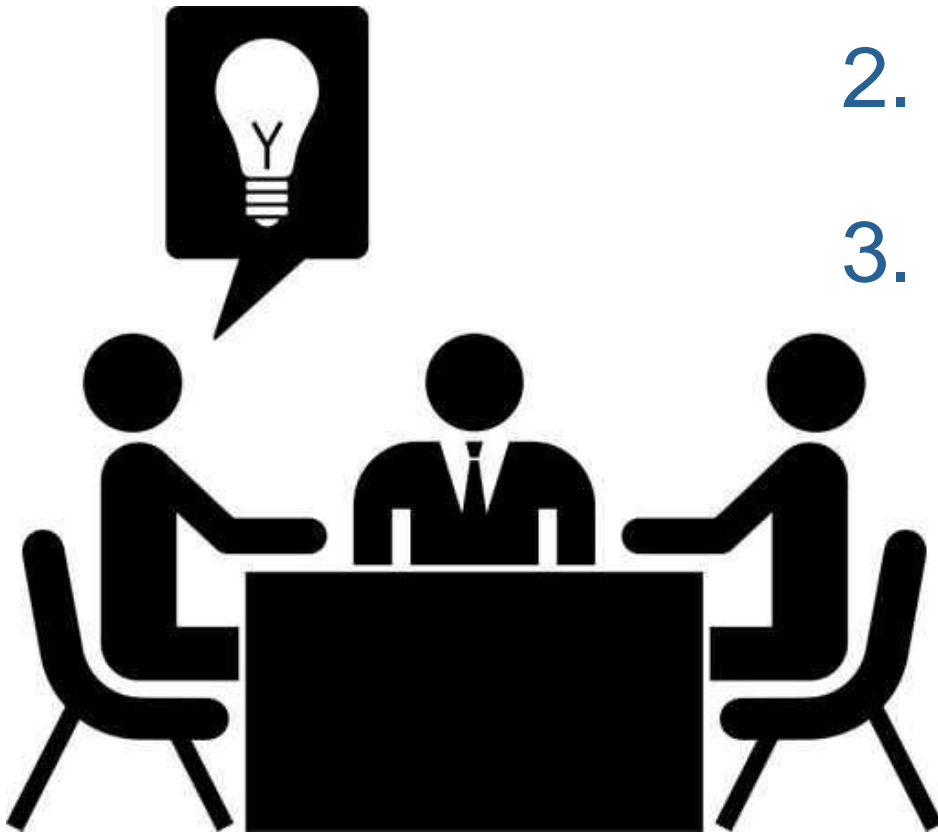
- Consider ordering preliminary appraisals before marketing a project, preferably with the same appraiser RD will be using
- Ensure your appraiser is giving adequate value for energy efficient material and design
- Comps in rural areas can be hard to come by encourage your appraiser to expand their geographic reach
- Encourage appraiser to reach out to RD's review appraisers

Appraisal Trends

1. Construction Costs vs. Values
2. Disaster Area vs. Values
3. Lack of Appraisers (knowledge & competency)

At your group answer the following:

1. Current challenges
2. Current solutions
3. List 2-3
recommendations





Questions



Contact

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