

Underwriting Rural Properties

March 4, 2021



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Agenda

- **The Challenges of Determining Eligibility**
- **Appraisers**
- **Appraisal Details**
- **Site Details and Improvements**
- **Hobby Farms and Farming Income**



Take a Guess...

How many people live in owner-occupied properties in rural areas and small towns?

- A. 30 million
- B. 45 million
- C. 62 million
- D. 110 million



Source: US Census Bureau

Did You Know?

The average home ownership rate in rural areas and small towns was **71.6%**

Delaware, Michigan and Minnesota have the highest percentage of owner occupied homes in rural areas and small towns – roughly **77%**.

Texas, North Carolina and Ohio have the largest number of owner-occupied homes located in small towns or rural areas:

- Texas: 1,119,536
- North Carolina: 841,550
- Ohio: 711,541

Source: US Census Bureau (2010 data)



The Challenges with Rural Properties

Properties located in small towns and rural areas sometimes have unique characteristics.

- Zoning
- Land use
- Property types
- Property condition and marketability
- Mixed zoning and uses
- Large acreage
- Multiple parcels
- Outbuildings
- Unique property improvements



Ineligible Properties

- A property that has a highest and best use other than residential.
- Agricultural or ranching property (including fallow agricultural land if highest and best use is not residential).
- Properties used for commercial purposes.
- Property with outbuildings used or to be used for agricultural purposes.
- A “carved-out” residential section of a larger site that hasn’t been legally separated in the public records.



Appraisers

- **It's crucial for the appraiser to have rural property experience**
- Must possess knowledge of the specific area.
- Familiar with the appropriate data resources for rural areas.
- Understanding of market preferences and price patterns.
- Be able to determine what is typical for the property's specific area.



Appraisers

The appraiser should write the appraisal with detailed explanations and justifications

It should be more than a single sentence.

The appraiser must always write the appraisal knowing that individuals other than the local lender will be evaluating the comments.

The appraiser must clearly explain ***why***:

- They used comparable properties outside the generally accepted proximity of the subject property.
- They used sales dates beyond the generally accepted timeframes.
- They used comparable homes of a non-similar design or age.

Appraisal Details

The appraisal report must accurately state:

- The zoning classification.
- A description of the zoning classification.
- Whether the land use of the subject property represents a legal, legal non-conforming, illegal use, or if there is no zoning.

	Dimensions	Area	Shape	View					
	Specific Zoning Classification	Zoning Description							
	Zoning Compliance <input type="checkbox"/> Legal <input type="checkbox"/> Legal Nonconforming (Grandfathered Use) <input type="checkbox"/> No Zoning <input type="checkbox"/> Illegal (describe)								
	Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe								
S I T E	Utilities	Public	Other (describe)	Public	Other (describe)	Off-site Improvements—Type	Public	Private	
	Electricity	<input type="checkbox"/>	<input type="checkbox"/>	Water	<input type="checkbox"/>	<input type="checkbox"/>	Street	<input type="checkbox"/>	<input type="checkbox"/>
	Gas	<input type="checkbox"/>	<input type="checkbox"/>	Sanitary Sewer	<input type="checkbox"/>	<input type="checkbox"/>	Alley	<input type="checkbox"/>	<input type="checkbox"/>
	FEMA Special Flood Hazard Area	<input type="checkbox"/> Yes <input type="checkbox"/> No	FEMA Flood Zone	FEMA Map #	FEMA Map Date				
	Are the utilities and off-site improvements typical for the market area? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe								
	Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe								

Appraisal Details

The property *should* be zoned as “residential” but may be acceptable if zoned otherwise.

- If not zoned residential, use as a residential property must be legally permitted and categorized as legal non-conforming.

The appraiser should provide a general statement regarding what the zoning permits, regardless of zoning classification.

“Highest and best use as improved” must be the present use indicated on the appraisal.

- Any other indications of “highest and best use” are not acceptable and the property’s use must be residential.

Dimensions		Area		Shape		View			
Specific Zoning Classification		Zoning Description							
Zoning Compliance		<input type="checkbox"/> Legal <input type="checkbox"/> Legal Nonconforming (Grandfathered Use) <input type="checkbox"/> No Zoning <input type="checkbox"/> Illegal (describe)							
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	Gas	<input type="checkbox"/>	<input type="checkbox"/>	Sanitary Sewer	<input type="checkbox"/>	<input type="checkbox"/>	Alley	<input type="checkbox"/>	<input type="checkbox"/>
	FEMA Special Flood Hazard Area		<input type="checkbox"/> Yes <input type="checkbox"/> No		FEMA Flood Zone		FEMA Map #		FEMA Map Date
	Are the utilities and off-site improvements typical for the market area? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe								
Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe									

Highest and Best Use

What does that mean?

- Reflects the actions of the most probable buyer for the property.
- How is the property being marketed? What features are being emphasized?



Appraisal Details

Properties must be:

Readily accessible by roads that meet local standards.

- Public roads or privately/community owned and maintained

Served by utilities that meet local standards.

Be a sufficient distance from adverse environmental or other influences that may affect safety or habitability.

Dimensions	Area	Shape	View
Specific Zoning Classification	Zoning Description		
Zoning Compliance	<input type="checkbox"/> Legal <input type="checkbox"/> Legal Nonconforming (Grandfathered Use) <input type="checkbox"/> No Zoning <input type="checkbox"/> Illegal (describe)		
Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe			
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	Water	<input type="checkbox"/>	<input type="checkbox"/>
	Sanitary Sewer	<input type="checkbox"/>	<input type="checkbox"/>
Off-site Improvements—Type		Public	Private
Street		<input type="checkbox"/>	<input type="checkbox"/>
Alley		<input type="checkbox"/>	<input type="checkbox"/>
FEMA Special Flood Hazard Area <input type="checkbox"/> Yes <input type="checkbox"/> No		FEMA Flood Zone	FEMA Map #
FEMA Map Date			
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Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe			

Which of the following may be considered external obsolescence?



A-Manufacturing Plant



B - Landfill



C- Wind Farm



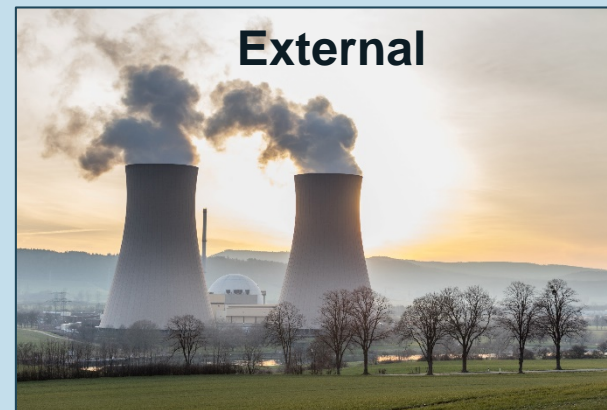
D- Old Outbuilding

External and Functional Obsolescence

External obsolescence creates a loss in property value due to external factors near or around the property.

Functional obsolescence creates a loss in property value due to lack of improvements, outdated amenities, and/or poor architectural design not meeting those standards desired by consumers.

- Oftentimes the issues may be curable.



Multiple Parcels

Rural properties may sometimes consist of multiple parcels

Each parcel must have the same basic zoning (for example, residential, agricultural).

The entire property may contain only one dwelling unit.

- Limited additional non-residential improvements, such as a garage, are acceptable.
- For example, the adjoining parcel may not have an additional dwelling unit.
- A home built across both parcels where the lot line runs under the home is acceptable.

Parcels must be adjoined to the other, unless they comply with the following exception:

- Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot.
- Evidence that the lot is non-buildable must be included in the loan file.

Comparable Sales

- **The appraiser may use comparable sales that are farther away than those typically used for non-rural properties**
- The comparables should have the same influences, such as distance from schools, shopping and employment.
- Comparables should have similar utilities, street improvements and amenities as the subject property.
- Distant comparables must be adjusted for differences between the subject property.



Comparable Sales (continued)

- Appraisers may use comparables more than six months old.
- Use of these comparables as best indicators of value and marketability must be explained and supported by the appraiser.
- Aged comparables must be adjusted for differences between the subject property, including any adjustments necessary due to the sales dates.



Comparable Sales (continued)

- More than three comparables may be used when at least three are actual settled or closed sales.
- The additional comparables, including sales under contract and current listings may be used to support the appraiser's adjustments and support the use of distant or less similar properties.
- Additional comparables may contribute significantly to understanding unusual situations such as limited markets, low turnover and a variety of distinct property types.
- The appraiser should explain in detail why additional comparables were used.

Acreage

There is no maximum acreage limit but the property must be typical for the market.

If the land value as a percentage is higher than the area norm, this must be explained and supported by the appraiser.

The property should not contain excess acreage compared to similar properties within its market.

- The sales comparison analysis approach must use comparable properties to support the acreage and rural location of the property.



Acreage (continued)

The appraiser must appraise and accurately describe **the entire site** and include all improvements located on the property.

- Artificially carving out a “residential” site is not allowed.
- The site size described in the appraisal must correspond to the legal description of the property.

Any “carved-out” residential improvements must be legally subdivided and reflected in the public records.



Outbuildings

The presence of significant outbuildings may indicate the property is agricultural, not residential in nature

- Large barns
- A storage area or facilities for farm-type animals or machinery.
- A silo

Review the appraisal to determine whether the outbuildings are residential, commercial or agricultural in nature, regardless of the value given to the outbuildings.



Outbuildings (continued)

- Properties with minimal outbuildings (such as a small barn or storage building) that are relatively insignificant in value in relation to the total appraised value are acceptable if they are typical for the area.
- The appraiser should demonstrate that the improvements are typical for the area and that an active, viable market exists.



Outbuildings

Which of these scenarios may pose a concern?



A



B



C



D

Outbuildings

The appraiser should describe any barns or other outbuildings in the Improvements section of the appraisal

- Describe the size and scope of the structure
- Describe its purpose
- How does structure influence the property value as a whole?
- Support with market data

Appraisers should not guess the contributory value of an outbuilding.

Devaluing or overvaluing outbuildings is not an acceptable practice.

I M P R O V E M E N T S	<input type="checkbox"/> Drop Siding	<input type="checkbox"/> Siding	<input type="checkbox"/> Other	<input type="checkbox"/> Filler	<input type="checkbox"/> Fireplace(s) #	<input type="checkbox"/> Fence	<input type="checkbox"/> Garage	<input type="checkbox"/> # of Cars
	<input type="checkbox"/> Floor	<input type="checkbox"/> Scuttle	Cooling <input type="checkbox"/> Central Air Conditioning	<input type="checkbox"/> Patio/Deck	<input type="checkbox"/> Porch	<input type="checkbox"/> Carport	# of Cars	
	<input type="checkbox"/> Finished	<input type="checkbox"/> Heated	<input type="checkbox"/> Individual <input type="checkbox"/> Other	<input type="checkbox"/> Pool	<input type="checkbox"/> Other	<input type="checkbox"/> Att.	<input type="checkbox"/> Det.	<input type="checkbox"/> Built-in
	Appliances <input type="checkbox"/> Refrigerator <input type="checkbox"/> Range/Oven <input type="checkbox"/> Dishwasher <input type="checkbox"/> Disposal <input type="checkbox"/> Microwave <input type="checkbox"/> Washer/Dryer <input type="checkbox"/> Other (describe)							
	Finished area above grade contains: Rooms Bedrooms Bath(s) Square Feet of Gross Living Area Above Grade							
	Additional features (special energy efficient items, etc.)							

Outbuildings

If there's an atypical outbuilding:

- It may be acceptable if the appraiser's analysis reflects little or no contributory value.

If there are significant outbuildings such as silos, large barns, storage areas or facilities for farm-type animals:

- This may indicate that the property is agricultural in nature.
- The lender must determine if the property is residential in nature regardless of whether the appraiser assigns a value to the outbuildings.



Non-Traditional Properties

Log homes, geodesic homes, berm homes, and other unique property designs may be acceptable.

The appraisal must provide adequate information to develop a reliable opinion of market value

The lack of similar type comparable properties makes the determination of a reliable opinion of value much more difficult.



Hobby Farms

Owning livestock (as pets) and growing produce as a hobby is permitted

- Owners should have a main source of income that is not related to the hobby.
- Despite income/loss being reflected on a tax return, it cannot be used to qualify and should be relatively insignificant.
- The amount of income from a hobby farm should be carefully considered to determine if it feels more like a business than a hobby.



Farming Income and Loss Reminder

Income (or loss) from secondary self-employment such as hobby farming (Schedule F) can be excluded if the borrower is using non-self-employment income to qualify (for example, salary or retirement income).



Conclusion

Determining rural property eligibility can be a difficult task

The appraisal/appraiser is the primary source of information.

- If you need more information about the property, ask!
- Always review the appraisal carefully.

Don't hesitate to ask your borrowers about their intentions or how they currently use the property.

Best and highest use for the property must always be residential.

MPF Contacts and Resources

MPF Service Center

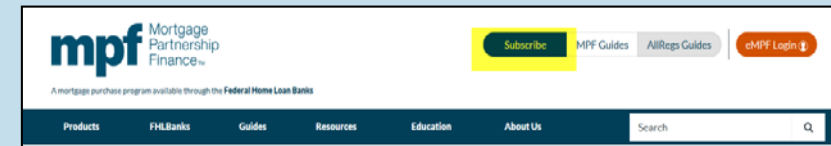
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Questions?

