

Collateral Considerations

Or

**Appraisal
Requirements**



FNMA Regulations

- In selecting an appraiser to provide an opinion of value for a leasehold held by a community land trust, the lender must make sure the appraiser is knowledgeable in the techniques of direct capitalization and market derivation of capitalization rates that are necessary to appraise this type of property. This means an appraiser with an advanced license. In Vermont this would be an appraiser with a license beginning with 079 (Certified Residential) or 080 (Certified General).



Fannie Mae Requirements – Community Land Trusts

- Fannie Mae will purchase loans where the home is located on Community Land Trust owned land.
- Lease agreement must conform to ICE Model Lease.
- Fannie Mae Form 2100 – Rider to Lease must be used.
- Leasehold Value Appraisal is required.



The Appraiser to use a three Step Process

- Develop an Opinion of the fee simple value of the property by using the Sales Comparison Approach.
- Develop an applicable capitalization rate and convert the income from the ground lease into a lease fee value by using a market derived capitalization rate.
- Calculate the leasehold value by reducing the fee simple value by the lease fee value.

When this appraisal technique is used, there is no need to document the land value of the security property.



Forms That Can be Used:

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| Single family w/interior inspection | FNMA 1004 (FHMLC 70) |
| Single family w/exterior only inspection | FNMA 2055 |
| Manufactured homes | FNMA 1004C |
| Condominiums w/interior inspection (if the project is on FNMA's approved list). | FNMA 1073 |
| Condominiums w/exterior only inspection | FNMA 1075 |
| Small Residential Income Property (2-4) | FNMA 1025 |
| Appraisal Update/Completions | FNMA 1004D |

The subject property should be appraised in fee simple title of ownership and fee simple comparables used in the Sales Comparison Grid. Once a fee simple value is developed the ground lease calculations are performed and the value of the Lease Fee Value subtracted from the Fee Simple to find the Leasehold Value.



Calculating Leasehold Value

1. Develop the Fee Simple Value in Sale Comparison Grid
2. Develop a Capitalization Rate from market data
3. Calculate Leased Fee Value
4. Subtract the Leased Fee Value from Fee Simple Value to find Leasehold Value.
5. Show all calculations in addendum.

Example

| | |
|--|-------------------|
| Fee Simple value developed in Report | \$100,000 |
| Market derived Land Capitalization Rate | 5.25% |
| Yearly land rent/Capitalization Rate | \$300/.0525 |
| \$25/month = \$300/.0525 = \$5,714 rounded | \$5,700 |
| Fee Simple value less Leasehold value | \$100,000-\$5,700 |
| Leasehold value | \$94,300 |

This calculation and other necessary language is reported in the addendum. The leasehold value is then reported in the URAR report.



How to Calculate a Cap Rate

- Capitalization rates are calculated by the formula
$$\text{Cap Rate} = \text{Income} \div \text{Value}$$
- Example: $\text{Cap Rate} = \$3,000 / \$60,000$ or 5%
- This example came from a leased lot in Hubbardton. The value of the lot is \$60,000 and the rent \$3,000/yr.
- Another way to calculate cap rates is to consider investors' return on investment. Today a good investment pays a 10% return. The greater the risk of investment, the greater the rate. A rate of 5%-6% is a good return for a safe investment like land rent.



How to Calculate a Cape Rate, Cont'd

- Search for Community Land Trust sales and use an actual sale to extract a Capitalization Rate. There are recent sales in the MLS of properties that sold in leasehold value.
- Use the previous sale of a Community Land Trust property you or others have appraised to extract the Land Capitalization Rate.
- Check with the local Community Land Trust to identify properties that sold in leasehold value.




Appraisal Addendum


- The URAR form does not include space for all of the details required in appraising a property subject to a leasehold value. Therefore the appraiser must create an addendum starting with the Scope of Work and detailing the steps taken to develop a credible report.
- FNMA “The appraiser must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions and conditions regarding the lease agreement.”
- Also include a comment on the value and marketability of Land Trust properties.

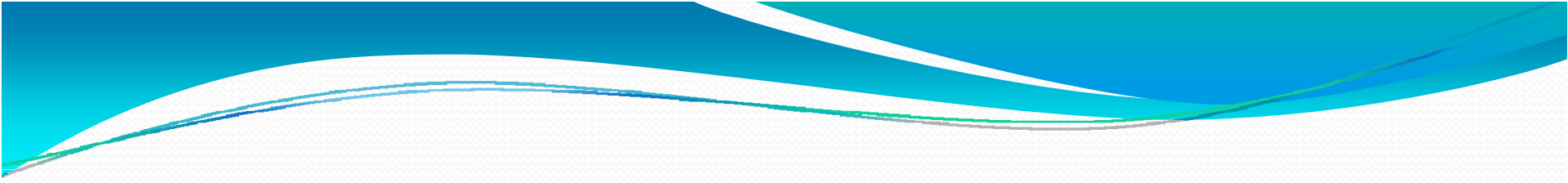


Hypothetical Conditions

- The following language must be included to meet USPAP regulations on not misleading a client.
- “This appraisal is made under the Hypothetical Condition that the property rights and other restrictions are removed by the Uniform Land Trust Ground Lease Rider.”
- Under the “Summary of the Sales Comparison Approach” you must report the results of:
 - -Opinion of the fee simple value of the property.
 - -Opinion of the leasehold value of the property.

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- The appraiser must develop the opinion of value for the leasehold Interest under the Hypothetical Condition that “the property rights being appraised are the leasehold interest without the resale and other restrictions that Fannie Mae’s ground lease rider removes when Fannie Mae has to dispose of the property acquired through foreclosure.” and
 - “This appraisal is made on the basis of a Hypothetical Condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Uniform Community Land Trust Ground lease rider.”

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- On the report form used the appraiser should:
 - Mark “Leasehold” under property rights appraised.
 - Provide the actual ground rent to be paid to the Community Land Trust but the purchaser.
 - Show the estimated fee simple value for the property in the “Sales Comparison Analysis” grid;
 - Report the “Leasehold Value” as the indicated value conclusion.
 - Finally you must check box “Subject to the following repairs, alterations and conditions” and add the following statement
 - “See attached addendum for development of capitalization rate and an expanded discussion of the comparable sales used and considered.”

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- Finally, the appraisal should include the following exhibits:
 - Photographs of subject and comparables.
 - Location Map for subject and Comparable Sales Map.
 - Flood Plain Map
 - Sketch of the property, including a interior diagram for any functional obsolescence due to layout and calculations of how gross living area was determined.
 - Operating Income Statement (If a multifamily unit)
 - 1004MC Form
 - Site map or land diagram (if available)