



Reviewing Rural Property Appraisals

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Objectives

Today's session

- **Understand which rural properties are acceptable**
- **How far can you go—distance of comparables**
- **Discussion on Rural Properties**

Reviewing Rural Property Appraisals

Appraiser

Provides the Lender with an adequately supported written opinion of value and a complete, accurate description of the property.

Underwriter

Review appraisal to ensure:

- Professional Quality
- Consistent to standards
- Judge property's acceptability and marketability

Neighborhood Section (Section 3)

Rural Properties - the property is acceptable based on its value and marketability.



Note: Race and the racial composition of the neighborhood are not appraisal factors.

N E I G H B O R H O O D	Neighborhood Characteristics				One-Unit Housing Trends				One-Unit Housing		Present Land Use %	
	Location	<input type="checkbox"/> Urban	<input type="checkbox"/> Suburban	<input checked="" type="checkbox"/> Rural	Property Values	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining	PRICE	AGE	One-Unit	%
	Built-Up	<input type="checkbox"/> Over 75%	<input type="checkbox"/> 25-75%	<input type="checkbox"/> Under 25%	Demand/Supply	<input type="checkbox"/> Shortage	<input type="checkbox"/> In Balance	<input type="checkbox"/> Over Supply	\$ (000)	(yrs)	2-4 Unit	%
	Growth	<input type="checkbox"/> Rapid	<input type="checkbox"/> Stable	<input type="checkbox"/> Slow	Marketing Time	<input type="checkbox"/> Under 3 mths	<input type="checkbox"/> 3-6 mths	<input type="checkbox"/> Over 6 mths	Low		Multi-Family	%
	Neighborhood Boundaries								High		Commercial	%
									Pred.		Other	%
	Neighborhood Description											
	Market Conditions (including support for the above conclusions)											

Your appraiser should have:

Geographic familiarity

The Appraiser you choose should know the rural area

Experience

Knowledge and experience with the type of property being reviewed

What is acceptable and what is unacceptable?

Unacceptable

- Agricultural type properties
- Undeveloped land
- Land development-types of properties

Acceptable

Residential properties located in rural areas.



Some properties may “look” agricultural because of the size of the land, zoning classification, or the existence of outbuildings. The observations and descriptions by the appraiser are critical to determining acceptability.

Fannie Mae Myth Busters

Fact

FNMA does purchase or securitize mortgage loans on rural properties of more than five acres, provided the property is residential in nature.

Fiction

FNMA does not purchase loans secured by rural properties on more than five acres.



Be sure that your appraiser places a value on the entire site and not the first 5 acres!

Fannie Mae Myth Busters

Fact

FNMA does purchase or securitize mortgage loans on rural properties of more than five acres, provided the property is residential in nature.

Properties with minimal outbuildings that are relatively insignificant in value in relation to the total value of a residential property are acceptable.

Fiction

FNMA does not purchase loans secured by rural properties on more than five acres.

FNMA does not purchase loan on rural properties that have barns or other outbuildings on them.

Fannie Mae Myth Busters

Fact

Fiction

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FNMA does not purchase loan on rural properties that have barns or other outbuildings on them.

Unique housing types such as log homes, geodesic homes, or earth homes are acceptable to FNMA.

FNMA does not purchase loans on unique house types.

Neighborhood Facts

However the “Neighborhood” is defined for a rural property, the appraiser must be able to select comparable sales and understand market conditions.

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Neighborhood Facts

Although large Lot sizes, diverse housing types, outbuildings, and lack of housing density are common to rural areas, the appraiser must determine what is typical for the subject properties in the specific area.

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Rural properties:

- Must be readily accessible by roads that meet local standards
- Must be served by utilities that meet community standards
- Must be suitable for year round occupancy—regardless of location

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									

Characteristics

- Zoning, present land use
- Sites larger than typical in neighborhood

Outbuildings

- Small barn or stable may be acceptable provided it is of relatively insignificant value in relation to the total appraised value of the property
- If outbuildings are NOT typical – this needs to be taken into consideration

Comparable Sales

- Fannie Mae has no limit on the distance of the comparable.
- Rural properties may have large lot sizes and locations can be relatively undeveloped, comparable sales in the immediate vicinity of a subject property may be difficult to obtain.
- Appraisers may use comparable sales located a considerable distance from the subject if they represent the best indicator of value.
- Sales more than 12 months prior to the date of closing are ok provided the appraiser explains why these sales provide the best indicator of the value of the subject property.

Focus

Important questions to ask

What is the property's primary use?

The appraiser needs to determine that the primary use of the property is residential and indicates that in the appraisal report.



Focus

Important questions to ask

Is the total site similar in size to typical residential properties in the market?

If the property is not typical, the appraiser should explain what impact this has on the property's value and marketability.



Focus

Important questions to ask

Is there significant farming or ranching activity on the property?

Fannie Mae will not purchase or securitize mortgages that are secured by properties that are agricultural in nature.

- Cattle-feed lot
- Grain handling facility
- Farming machinery activity
- Silo
- Facilities for farm animals



Focus

Important questions to ask

Is the property in a resort or vacation area?

The appraiser must determine if the property is suitable for year-round occupancy.



Scenario 1

Is this loan acceptable for sale to Fannie Mae?

20-acre rural site with a house, small apple orchard, produce stand and a barn.



- Current owners who occupy the property as their primary residence, sell fruit and vegetables on the weekend.
- Appraiser looked at the market area and determined the site was not atypical for the area and the house represents site's highest and best use.

Scenario 2

Is this loan acceptable for sale to Fannie Mae?

Two year old Log Home on a 20-acre site.



- There are some log homes in the market area, however there are no recent sales of comparable properties.
- The appraiser used three traditional style dwellings as comparable sales.

Scenario 3

Is this loan acceptable for sale to Fannie Mae?

40 year old home on a 12-acre rural site.



- Current owner operates an auto repair business out of the three outbuildings on his property.
- The nonresidential outbuildings are a six car garage, barn and large shed.

Scenario 4

Is this loan acceptable for sale to Fannie Mae?

Newly constructed home priced at \$180,000 in an undeveloped area.



- Appraiser determined the price range of homes in the neighborhood was \$40,000 to \$200,000. Predominant market price was between \$65,000 and \$100,000 because typical residences were smaller than the newly constructed home.
- Appraiser's notes indicate there was a market for the subject in the area.

Conclusion

Thank you for attending today's Radian webinar.

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