**[ENGAGEMENT LETTER FOR APPRAISER]**

**(JOINT RETENTION)**

[Date]

VIA FACSIMILE #\_\_\_\_\_\_\_\_\_

and VIA \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[Appraiser Contact]

[Appraisal Company and Address]

[City/State/Zip]

**Re: Property: [Project Name], [Project Address]**

**RIMS Project No.: [RIMS No.]**

Dear [Appraiser Contact]:

Fannie Mae and [Lender Name] (the “Lender”) are pleased to engage [Appraisal Company] (the “Appraiser”) with the provision of the services described in this agreement (the “Services”). This agreement and **Exhibit 1**, Multifamily Appraisal Engagement Information, sets forth an understanding of the appraisal engagement, the scope of the Services, requirements of the Appraiser, and certain engagement administration matters. This agreement is subject to the General Business Terms and Conditions for Multifamily Appraisals that can be found in **Attachment A** andMultifamily Appraisal General Requirements **Attachment B.**

**Background.** Fannie Mae is a government sponsored enterprise chartered by the U. S. Congress and regulated by the Federal Housing Finance Agency. Fannie Mae and the Lender have a financial interest in the financing secured by the property referenced above which is the subject of the real estate appraisal (the “Property”). Together Fannie Mae and the Lender are seeking an appraisal to establish the Market Value of the Property. This agreement provides for the joint engagement of the Appraiser by Fannie Mae and the Lender (collectively, the “Clients”).

**Purpose.** The purpose of the Appraisal Report is to determine the Market Value of the ownership interest in the Property as of the Effective Date of Value. The intended use of the appraisal and market value conclusion is for business decisions that are specific to Fannie Mae and the Lender. The Appraiser must not allow the intended use of the assignment or the Clients’ objectives to cause the appraisal assignment results to be biased. The Appraiser must not advocate for either Client’s objectives**.**

**Professional Standards.** The Services will be performed in accordance with the *Uniform Standards of Professional Appraisal Practice* (“USPAP”) and with the regulations adopted under *Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989* (“FIRREA”). In accepting this assignment, Appraiser represents that the professionals who will perform the Services have demonstrated competency in compliance with USPAP in conducting appraisals of multifamily properties of the type requested and have the knowledge and experience in the Property’s market to complete this assignment competently.

**Professional Services to be Provided and Timing**. The Appraiser shall promptly begin its services upon acceptance of the assignment and shall use best efforts in performing the Services in accordance with this agreement. The Appraiser shall develop the appraisal and prepare an appraisal report (the “Appraisal Report”). A draft will be due on or before \_\_\_\_\_\_\_\_\_\_\_ (the “Report Delivery Date”). The Clients will review the draft to determine that it is factually accurate and acceptable for the intended use. The Clients will jointly communicate with the Appraiser regarding corrections (if any) and the date by which the revised draft or final Appraisal Report shall be delivered.

Pertinent available information regarding the Property, including but not limited to operating reports, property condition assessment reports, engineering reports, and environmental reports, will be provided to the Appraiser for consideration in performing the Services. Additional information specific to this assignment can be found in **Exhibit 1**, Multifamily Appraisal Engagement Information. The requirements for the Services described in this agreement can be found in **Attachment B**, Multifamily Appraisal General Requirements.

The Appraiser shall manage to resolution the appraisal assignment including delivery of the Appraisal Report developed under USPAP Standards Rule 2-2(a). The Appraisal Report will identify and report those issues specific to the Property that are considered critical to understanding the market value and the marketability of the Property.

If there will be a delay in the timely delivery of any report, Appraiser shall advise the Clients in writing, with an explanation of the reason for the delay. If Appraiser fails to deliver any report by its respective due date and fails to notify the Clients in a timely manner of such a delay, then the Clients may, at their discretion, assess a penalty of $\_\_\_\_\_\_\_ per calendar day for each day of delay, to be deducted from Appraiser’s professional fee, until the Clients have received the required report.

**Communication.** All communication with the Appraiser regarding the valuation of the Property, whether written or oral, will occur jointly between Fannie Mae, the Lender and the Appraiser. The Appraiser understands and agrees that any such communication which occurs without participation of all parties should be ended immediately and promptly disclosed fully in writing to the excluded party.The Appraiser understands and agrees that all documents, information and communications held in connection with this agreement and the Property are to be kept **Strictly** **Confidential**.

The Clients and Appraiser will use the Real Estate Information Management System (“RIMS®” or “RIMS Central”) as the information delivery tool to manage and communicate engagement status, to deliver the documents for the Appraiser’s use in executing the assignment, and for the Appraiser to deliver all reports and invoices.

**Fees and Expenses.** The Appraiser will receive a professional fee of $\_\_\_\_\_\_\_\_, inclusive of all expenses. All invoices for the Appraiser’s compensation must be addressed to Fannie Mae and the Lender. If new data or information received during the course of this engagement requires the structure or scope of the analysis to be altered, the Appraiser shall promptly notify the Clients of how such changes might impact the professional fee. The Appraiser shall not undertake an expansion of the scope of the Services without mutual written agreement of the Clients.

Notwithstanding any termination of this agreement, Appraiser may charge an additional professional fee inclusive of expenses not to exceed $\_\_\_\_\_\_\_ per hour for any required additional services jointly requested by the Clients. Such additional services shall be engaged separately through an amendment to this agreement and may include, but are not limited to, being deposed and/or testifying in court. The Appraiser’s total compensation for such additional services shall not exceed $\_\_\_\_\_\_.

**AUTHORIZATION**

Authorized representatives from Fannie Mae and the Lender have acknowledged their understanding and recorded their respective acceptance of this agreement through RIMS Central. Acceptance of the engagement through RIMS Central by the Appraiser’s representative will constitute the Appraiser’s acknowledgment of the receipt, understanding, and acceptance of this agreement. This agreement will be effective upon such acceptance. Appraiser represents that the individuals accepting the assignment through RIMS Central and signing the agreement have the authority to do so.

The Appraisal Report must include an executed copy of this engagement letter including all exhibits and attachments which are incorporated by reference as though fully set forth herein.

Sincerely,

Fannie Mae [Lender Name]

Multifamily Enterprise Risk Management

**Contacts**

[Fannie Mae Contact] [Lender Contact]

Fannie Mae [Lender Name]

[Address] [Address]

[Address] [Address]

[City, State Zip] [City, State Zip]

Telephone: [\_\_\_\_\_\_\_\_\_\_\_\_\_] Telephone: [\_\_\_\_\_\_\_\_\_]

Email: [\_\_\_\_\_\_\_\_\_\_\_\_\_] Email: [\_\_\_\_\_\_\_\_\_]

**AGREED AND ACCEPTED BY APPRAISER:**

By:

Printed

Name:

Title:

Date:

Enclosures:

Exhibit 1 – Multifamily Appraisal Engagement Form

Attachment A – General Business Terms and Conditions for Multifamily Appraisal Engagements

Attachment B – Multifamily Appraisal General Requirements

**Exhibit 1**

**Multifamily Appraisal Engagement Information**

Property:

Property Address:

RIMS Project No.:

Property Legal Description:

Ownership Interest:

Clients and Intended Users**:** Fannie Mae and Lender

Purpose: Determine the Market Value of the ownership interest in the Property as of the Effective Date of Value.

Intended Use: Business decisions that are specific to Fannie Mae and Lender

Valuation Premise: “As Is” and when applicable “As Restricted”

Effective Date of Value: Date to be set by clients

Report Delivery Date:

Report Format: Narrative fully-described Appraisal Report (self-contained)

Preferred File Naming Convention: “Status\_Property Name\_\*” where Status denotes Draft, Revised, or Final

**Address the Appraisal Report to:**

[Fannie Mae Contact] [Lender Contact]

Fannie Mae [Lender Name]

[Address] [Lender Address]

[Address] [Lender Address]

[City/State/Zip] [Lender City/State/Zip]

See RIMS Central for any additional information.

**Attachment A**

**General Business Terms and Conditions for Multifamily Appraisal Engagements**

All Services performed by Appraiser pursuant to this agreement will be in accordance with the terms and conditions set forth below. The captions used herein are for convenience of reference only and do not define or limit the scope, content, or meaning of the provisions contained herein.

1. Entire Agreement, Amendment, and Notices. These terms, and the engagement letter, including all attachments, constitute the entire agreement between the parties with respect to this engagement; supersede all other oral and written representations, understandings, or agreements relating to this engagement; and may not be amended except by a written agreement signed by the parties. In the event of any conflict or ambiguity between these terms and the engagement letter, these terms will control. All notices hereunder will be (a) in writing; (b) delivered to the representatives of the parties at the addresses set forth in the engagement letter, unless changed by either party by notice to the other party; and (c) effective upon receipt.

2. Term. Unless terminated sooner as set forth below, this engagement will terminate upon the completion of the Services.

3. Independent Contractor. In the performance of its Services under this agreement, the Appraiser shall act solely as an independent contractor, and nothing herein contained or implied will at any time be so construed as to create the relationship of employer and employee, partnership, principal and agent, or joint venture partner as between the Clients and the Appraiser.

4. No Assignment. Appraiser shall not assign, transfer, or subcontract any of its obligations (including interests or Claims) under this agreement to any party without the express written consent of the Clients.

5. Appraiser Covenants. Appraiser covenants that in performing the Services hereunder the Appraiser: (i) shall comply with all federal, state, and local statutes, codes, rules, regulations, and guidelines including, but not limited to, those related to zoning, environmental, fire, safety, and health matters; (ii) shall comply with all generally accepted appraising standards, protocols, and guidelines and the attached guidelines and requirements; (iii) warrants that it shall perform the Services in good faith and with due professional care; and (iv) shall perform the services generally performed by appraisers in conducting the type of Services described by this agreement.

6. Appraisal Licenses. Appraiser represents that each employee, its subsidiaries or subcontractors, or their respective personnel, who provides Services to the Clients for this engagement, has the capability, experience, means, and appropriate licenses, certificates and permits required to perform the Services contemplated by this agreement. Appraiser represents that Appraiser is aware of, and in full compliance with, the laws of the state or district where the Property is located regarding the licensing and certification of real estate appraisers. Appraiser shall provide confirmation to the Clients that the Appraiser is licensed or certified as appropriate under applicable law. This confirmation can be accomplished by noting the appraisal professionals’ license or certification numbers in the Appraisal Report and by providing a copy of the license or certification in the Appraisal Report.

7. Liens. Appraiser shall be responsible for the satisfaction or payment of any claims or liens by any provider of work, labor, material, or services engaged by Appraiser relating to the Services under this agreement. Appraiser shall hold harmless and indemnify the Clients, their respective officers, directors, employees, agents, and representatives, against any such claim whatsoever relating to the Services under this agreement, including all costs, expenses, and attorneys’ fees, whether suit be brought or not. Such liens will be discharged by Appraiser within 30 days after notice of filing thereof, by bonding, payment, or otherwise upon request, and, as a condition to the Clients’ obligation to make any payments to Appraiser, shall submit such lien waivers, affidavits, and proofs of payment as the Clients shall require.

8. Indemnification. Appraiser shall hold harmless and indemnify the Clients, their respective directors, officers, employees, agents, and representatives from and against all loss, liability, penalty, damage, expense, cost, including attorneys’ fees, of any kind, to person and property relating in any way to the Appraiser’s performance the Services under this agreement (“Claims”), whether or not suit is brought. The provision of this indemnification are solely for the benefit of the parties hereto and not intended to create or grant any rights, contractual or otherwise, to another person or entity. Appraiser assumes all risk of property loss or damage and of personal injury or death which its officers, directors, employees, agents, and representatives may sustain in connection with this agreement.

9. Termination. The Clients will have the right to terminate this agreement at any time upon written joint notice to the Appraiser. In the event of such termination, the Clients may be liable to Appraiser for fees for Services rendered to the effective date of such termination. Notwithstanding any termination of this agreement, Appraiser’s obligations under Paragraphs 7, 8 and 10 through 13 below will survive and remain in full force and effect.

10. Limited Access to Information / Joint Communications. Appraiser shall use reasonable precautions to limit access to information relating to the Services to those persons within its employ for whom it is necessary and appropriate for purposes of performing the Services. All communications with Appraiser regarding the valuation of the Property will be held jointly with Fannie Mae and the Lender.

11. Confidential Nature of Assignment. All communications pursuant to this agreement, whether oral or written, between the Appraiser and/or Fannie Mae and the Lender will be regarded as confidential. Unless Appraiser receives express written permission from Fannie Mae and the Lender or is compelled to disclose by administrative or judicial process, Appraiser shall not disclose: (i) the nature or content of any communications, information, documents, studies, data, or reports in any way relating to the Property or to the Services performed hereunder, including without limitation, those set forth in Paragraph 12 [Work Product] hereof; (ii) the terms of this agreement; and (iii) the contents of any appraisal performed hereunder.

The Appraiser understands and agrees that all documents and information in connection with this agreement and the Property are to be kept **Strictly** **Confidential**.

12. Work Product. All work papers, test results, records, reports, findings, recommendations, data, memoranda, or other documents prepared or received by Appraiser pursuant to this agreement, regardless of their nature and source, are the property of the Clients, will be considered the work product of the Clients, and will be held by Appraiser solely for its convenience and subject to the Clients’ unqualified right to possession, custody, and control. Upon either of the Clients’ request, Appraiser shall immediately provide all originals and all copies of such work papers, test results, records, reports, findings, recommendations, data, memoranda, or documents to the Clients, respectively.

Notwithstanding the foregoing, Appraiser may maintain a single copy of all such work product, including any summaries, analyses or extracts thereof provided in connection with the Services, for the purposes of USPAP compliance guidelines; provided, that (i) all such work product remains the property and work product of the Clients and may not be used by Appraiser for any purpose whatsoever without the prior written consent of the Clients, and (ii) all persons with access to such work product are fully informed of, and agree in writing to observe, the non-disclosure and non-use obligations contained in this agreement.

13. Unauthorized Release. Appraiser shall immediately notify the Clients of the occurrence of any of the following events: (i) a request by any person to examine, inspect, or copy any work papers, test results, records, findings, recommendations, data, memoranda, or other documents prepared by Appraiser or submitted to Appraiser relating in any way to its role as Appraiser under this agreement; and (ii) the exhibition or surrender of any such documents in a manner not expressly authorized by the Clients.

14. Clients’ Responsibilities. Clients will cooperate with Appraiser in the performance of the Services, including providing Appraiser with reasonable access to the Property for inspection and timely access to data, information, and personnel of Clients. Clients will be solely responsible for, among other things, (i) the performance of its personnel and agents and (ii) the accuracy and completeness of all data and information provided to Appraiser (without representation or warranty) for purposes of the performance of the Services. By acceptance of the terms of this agreement, the Appraiser acknowledges that access to the Property for inspection may not be available and that data and information about the Property may be obtained by the Clients from third parties, including the Property owner, and, therefore, may be incomplete or unavailable.

15. Insurance Requirements. By acceptance of the terms of this agreement, Appraiser acknowledges having in place insurance coverage in the following amounts and from providers acceptable to the Clients. Documentation that confirms the coverage will be made available to the Clients by Appraiser upon request.

(a) Comprehensive general liability insurance – per occurrence $\_\_\_\_\_\_\_; umbrella liability $\_\_\_\_\_\_\_;

(b) Automobile liability insurance - $\_\_\_\_\_\_\_;

(c) Professional errors and omissions liability insurance - $\_\_\_\_\_\_\_;

(d) Fidelity bond/crime insurance – not required; and

(e) Worker’s compensation insurance complying with the laws of the state where the work is performed.

16. Conflict. In the event of conflict between the terms of this agreement, including without limitation, Paragraph 8 [Indemnification] hereof, and the terms of the appraisal prepared pursuant to the terms hereof, this agreement will prevail.

17. Governing Law, Jurisdiction and Venue, and Severability. These terms, the engagement letter including all attachments and all matters relating to this engagement will be governed by and construed in accordance with the laws of the Property state without giving effect to internal choice of law rules. The parties submit to the nonexclusive jurisdiction of the United States District Court for the Property state or any state court sitting in that jurisdiction for purposes of all legal proceedings arising out of or relating to, or the transactions contemplated by this agreement. The parties waive, to the fullest extent permitted by law, any objection which they may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such court has been brought in an inconvenient forum. If any provision of such terms or the engagement letter is unenforceable, such provision will not affect the other provisions, but such unenforceable provision will be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein.

**Attachment B**

**Multifamily Appraisal General Requirements**

All multifamily appraisals shall be prepared in accordance with the following requirements:

1. Property. The address and legal description of the Property to be appraised is described in **Exhibit 1**.
2. Professional Standards. The Appraiser shall develop and report the appraisal in conformance with generally accepted appraisal standards as evidenced by the *Uniform Standards of Professional Appraisal Practice* (“USPAP”) promulgated by the Appraisal Standards Board of the Appraisal Foundation. The Appraisal Report must include a signed certification that the Appraiser has complied with USPAP.
3. Regulatory Compliance. The Appraiser shall develop and report the appraisal in conformance with the regulations adopted under Title XI of the *Financial Institutions Reform, Recovery and Enforcement Act of 1989* (“FIRREA”). Guidance applicable to specific situations can be found in USPAP Advisory Opinion AO-30 (Appraisal for Use by a Federally Regulated Financial Institution).
4. Appraiser Qualifications. The Appraisal Report shall include the qualifications of the professionals performing the Services. The Appraiser must have demonstrated competency in compliance with USPAP and FIRREA in conducting appraisals of multifamily properties of the requested type.

When applicable, the Appraiser should set forth their qualifications in preparing appraisals of properties with Land Use Restriction Agreements (“LURA”), Low-Income Housing Tax Credits (“LIHTC”) or other Tax Credits, and other affordable housing, tenancy or rent restrictions. When applicable, the Appraiser should set forth their qualifications in preparing valuations of unused Tax Credit that would survive any foreclosure sale and re-sale of the Property.

1. Purpose. The purpose of the appraisal is to determine the market value of the ownership interest in the Property as of the Effective Date of Value. This Market Value will be relied upon by the intended users for decision-making purposes involving business interests in the Property. Fannie Mae and the Lender have a risk position in the transaction and a financial interest in the financing secured by the Property.
2. Appraisal Premise. The Appraiser shall determine the Market Value of the Property in its “As Is” condition as of the Effective Date of Value. For purposes of the Services, “As Is” will mean the estimate of the Market Value of the Property in its current physical condition, use, and zoning as of the Effective Date of Value.

If the Property has unused LIHTCs or other tax credits (“Tax Credits”) that transferred to Fannie Mae as a result of foreclosure, or other on-going affordability or tenancy restrictions of any type, the Appraiser shall provide an indication of (i) the Market Value of the Property “As Is”; (ii) the Market Value of the Property “As Restricted,” and (iii) if requested by the Clients, the value of the remaining unclaimed Tax Credits.  See Sections 15 – 21 below for additional information for Tax Credits and other affordability and tenancy restriction appraisal requirements.

1. Report Format. The report format should conform to USPAP requirements for an appraisal report. The Appraisal Report should contain all significant data to allow the reader to understand the scope of the work performed (self-contained).

* Include Fannie Mae and Lender as intended users.
* Discuss the physical inspection of the interior and exterior areas of the Property. Include photographs that represent the condition and quality of the Property.
* Discuss the market area (neighborhood) conditions and disclose the extent of market area inspections performed.
* Include and discuss a supportable and defensible highest and best use.
* Comparable properties should have a same or similar highest and best use as the Property. However, if identical properties are not available, the appraiser should make an adjustment for the differences.
* Include a discussion of how the capitalization rate is derived when a direct capitalization analysis is used.
* Discuss the analysis of each comparable sale and disclose the extent of any inspections performed.
* Include an adjustment grid with appraiser-applied adjustments, if any.
* Discuss the analysis of each comparable rental and disclose the extent of any inspections performed. Include an adjustment grid with appraiser-applied adjustments, if any.
* Discuss each of the lease absorption comparables, if any, and disclose the extent of inspections performed.
* Include maps to denote the location of the Property relative to the market area and the comparable properties.
* Note the appraisal professional's license or certification numbers and include a copy of the license or certification.
* Include a signed copy of the engagement letter and all attachments.
* Include Property information provided to the Appraiser during the assignment and the source (e.g., rent rolls, operating statements, budgets).

1. Scope of Work: In conformance with the USPAP *Scope of Work Rule*, the Appraisal Report must reflect an appropriate scope of work that provides for credible assignment results. The Appraiser is to conform with the previously noted professional standards and regulations and:

* If the Property contains commercial space, the Appraisal Report must segregate the commercial revenue, expenses and income attributable to that space from the residential operations attributable to the Property. The Appraisal Report’s commercial cash flow estimates must reflect any special conditions indicated in the commercial leases that would impact the net cash flows of the Property.
* Analyze and report the estimated length of the marketing period considered typical in the market and reflected in the market value as of the Effective Date of Value.

9. Non-stabilized Occupancy: The Appraiser shall analyze and report appropriate adjustments and discounts for partially leased buildings and non-stabilized assets (See Appendix C, Deductions and Discounts-*Interagency Appraisal and Evaluation Guidelines* published in December 2010). Additionally, if the Property’s occupancy is not stabilized as of the Effective Date of Value, the Appraiser shall include a lease-up analysis and discussion with a minimum of three supplemental comparable sales with less-than-stabilized occupancy, if such comparable sales are available. The Appraiser shall analyze, reconcile and discuss the final concluded Market Value of the Property with the *unadjusted* sale prices of the supplemental comparable sales regarding any differences in the properties’ characteristics, locations and/or the terms of sale.

10. Market Value: As defined by the Office of the Comptroller of Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions; the Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation; and in compliance with Title XI of FIRREA and the *Interagency Appraisal and Evaluation Guidelines*, as well as USPAP, and for purposes of the Services, market value is as defined follows:

*“the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the 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 seller to buyer under conditions whereby:*

*(a) Buyer and seller are typically motivated;*

*(b) Both parties are well informed or well advised, and acting in what they consider their own best interests;*

*(c) A reasonable time is allowed for exposure in the open market;*

*(d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*

*(e) 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.”*

11. Ownership Interest in the Property is identified in Exhibit1. The acceptable definitions of the identified ownership interests, as applicable, are:

* + Fee Simple Estate: Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, or escheat.
  + Leased Fee Estate: An ownership interest held by a landlord with the rights of use and occupancy conveyed by a lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease.

* + Leasehold Estate: The interest held by the lessee (the tenant or renter) through a lease transferring the rights of use and occupancy for a stated term under certain conditions.

12. Property Condition and Expert Reports. The Appraiser shall analyze and discuss appropriate deductions and discounts for proposed construction or renovation. During the course of the assignment the Appraiser may be supplied with a property condition assessment or other engineering reports conducted for the benefit of the Clients which includes an expert’s estimate of cost to cure deferred maintenance. The Appraiser shall consider the expert’s estimated costs in making the final determination of Market Value and include a discussion in the Appraisal Report. The Appraiser shall document in the appraisal any discussions held with the expert including, but not limited to, name of contact and date of conversation. The Appraiser shall reconcile any observations from the on-site inspection with a summary of cost to cure and discuss concurrence or contradiction of findings in the expert report(s).

13. Property Taxes. If during the course of the assignment the Appraiser is supplied with evidence of arrearages of real property taxes, the Appraiser shall research and disclose in the Appraisal Report the estimated cost to cure such arrearages. However, such cost to cure arrearages should not be included in determining the market value of the Property.

14. Clients’ Anti-Redlining Policy: The Clients do not designate certain areas as being acceptable or unacceptable. In other words, the Clients do not "redline." Location factors are fundamental to Property appraising and there is nothing improper about developing an appraisal on the basis of a realistic perception of risk in a given market area. Redlining can occur when perceived Property risks are based on improper location factors (such as the arbitrary imposition of unfavorable valuation terms on the basis of geographic area) or when the perceptions of risk are derived from factors that do not predict risk, either reliably or not at all. An example of a factor that is not predictive of risk is race, and racial redlining is illegal under federal law. Other factors that serve as a proxy for race are equally impermissible. The Appraiser must be sensitive to these impermissible factors and apply the Clients’ guidelines in a consistent, equitable and legal manner. None of the Clients’ guidelines are intended to foster redlining. If any provision is interpreted to do so, it has been misunderstood.

**Land Use Restriction Agreements (“LURA”)**. In the *appraisal of a property* that is subject to a LURA and having unused Low Income Housing Tax Credits (“LIHTC”), other Tax Credits, or other affordability or tenancy restrictions that transferred to Fannie Mae as a result of foreclosure, the following requirements will also apply.

Additional guidance may be provided by the Clients’ respective legal counsel regarding any additional considerations associated with the LURA that may impact value.

15. “As Restricted” Value Premise. When applicable, the Appraiser will be instructed to value the Property in its “As Is” condition under the following two sets of assumptions:

1. The first valuation scenario should assume that the existing LURA remains in-place and that rental rates are limited to the maximum allowable by the Tax Credit or other affordability or tenancy restriction statutes and regulations; and
2. The second valuation scenario should assume that the LURA is extinguished as of the Effective Date of Value and that the units may be leased at market rates, subject to any restrictions that survive the LURA.

16. Comparable Sales. In developing the Appraisal Report, the Appraiser should include both market and affordable property sales and clearly differentiate any comparable sales that are Tax Credit or other affordability or tenancy restricted properties from those which are not Tax Credit or restricted properties.

17. Surviving Contracts or Tax Abatements. The Appraiser should analyze and discuss the value benefit of any identified U.S. Housing and Urban Development (“HUD”) Section 8 contracts or tax abatements that are applicable to the Property and that would survive any foreclosure sale and re-sale of the Property.

**Valuation of Remaining Tax Credits.** If the Property has unused Tax Credits that would survive any foreclosure sale and re-sale of the Property, the Clients will engage either the Appraiser or another third-party to value such remaining Tax Credits.

In the *valuation of the remaining Tax Credits*, the following requirements will also apply:

18. IRC Section 42. The Appraiser or third-party valuator shall inspect the complete first-year tenant files to determine compliance with the requirements of Section 42 of the Internal Revenue Code.

19. IRS Form 8609. The Appraiser or third-party valuator should contact the state or local housing agency that granted the Tax Credit allocation to the Property in order to confirm the gross dollar amounts of any remaining Tax Credits from the *Form 8609 Low-Income Housing Credit Allocation and Certification.*

20. IRS Form 8823. The Appraiser or third-party valuator should contact the state or local housing agency that granted the Tax Credit allocation to the Property in order to confirm any issuance of *Form 8823 Low-Income Housing Credit Agencies Report of Non-Compliance or Building Disposition*. If any issuance of Form 8823 was made, the Appraiser or third-party valuator should compute and consider the cost of correcting the violations.

21. Tax Credit Incremental Value. The Appraiser or third-party valuator should consider the current secondary market for Tax Credits and consider what incremental value, if any, would be added to the price of the Property by virtue of the Tax Credits remaining.

22. Net Proceeds. The Appraiser or third-party valuator shall determine the net proceeds that could result from a re-syndication or resale of the Property. Because there is not a generally accepted single “industry standard” methodology for making such a determination, the Appraiser or third-party valuator shall provide a discussion of the methodology, models, and assumptions utilized in reaching the determination.