

**DETERMINING WHETHER TO APPLY THE BUSINESS LOAN APPRAISAL EXEMPTION
TO TRANSACTIONS OVER \$250,000**

The following table provides **examples of business loan transactions secured by real property collateral** that require an evaluation, either through a collateral valuation or a collateral appraisal. In reviewing these examples, please refer to the flow chart “[Business Loan Appraisal Exemption Considerations for Transactions Over \\$250,000 \(Attachment 1\)](#)”. Also, assume each of the examples represents a real estate-related financial transaction, i.e., any transaction involving the sale, lease, purchase, investment in, or exchange of real property, including interests in property or the financing thereof; or the refinancing of real property or interests in real property, or the use of real property or interests in real property as security for a loan or investment, including mortgage-backed securities.

Transaction	Analysis	Type of Collateral Evaluation Performed
Applicant requests \$1.5 million to purchase 30 acres of farmland that includes a single-family home and horse-riding stable. Also, \$250,000 of the loan will be used to renovate the home.	The transaction value is greater than \$1.0 million and, therefore, exceeds the limitations for a “business loan” appraisal exemption.	Appraisal by a State-certified real estate appraiser in accordance with § 614.4260(b)(2) is required.
Applicant requests \$260,000 to purchase 120 acres of cropland from aging parents. The applicant plans to integrate the cropland into his own farming operation.	The transaction qualifies for the business loan appraisal exemption because the transaction value is \$1.0 million or less, and it is clear that the primary source of repayment will be from the borrower’s farming enterprise and not from the sale or cash rental of real estate.	Valuation by a qualified evaluator in accordance with § 614.4250 is required.
Applicant requests \$260,000 to purchase 120 acres of cropland from aging parents. The applicant plans to cash rent the cropland to a neighbor as the parents have done for the past few years.	The transaction does not qualify for a business loan appraisal exemption because the loan repayment is dependent on income from the cash rental of real estate as described in § 614.4260(c)(2)(ii).	Appraisal by a State-licensed or State-certified appraiser in accordance with § 614.4260(b)(1) is required.
Applicant requests \$260,000 to purchase 120 acres of cropland from aging parents. The applicant plans to continue leasing the land to a neighbor through a “crop-share” agreement. The applicant and the farmer will jointly decide on the crop produced and the method for marketing the crop.	In this transaction, if the crop-share arrangement is made part of the loan repayment plan, then the transaction qualifies for the business loan appraisal exemption because the applicant is directly subjected to the risk associated with agriculture and, therefore, is not considered a passive investor.	Valuation by a qualified evaluator in accordance with § 614.4250 is required.
The applicant requests a \$750,000 loan to purchase rural land with a main dwelling attached. The acreage is sufficient to support the applicant’s plans for a small poultry operation, and the applicant intends to generate agricultural income on an ongoing basis. A portion of the repayment will come from the farming enterprise, which will be subject to operational risk associated with poultry production.	The transaction value is within the limitation for a business loan appraisal exemption, and a bona fide farming enterprise subject to operational risk will be conducted on the property.	Valuation by a qualified evaluator in accordance with § 614.4250 is required.

These examples are for illustration purposes only. Relying solely on these examples for decision making is discouraged. If more information is needed, please reference the collateral evaluation regulations at § 614.4260. You may also contact Barry Mardock at (703) 883-4456 or www.mardockb@fca.gov, Hal Derrick at (703) 883-4266 or www.derrickh@fca.gov, or Andrew Jacob at (703) 883-4356 or www.jacoba@fca.gov.