

July 1, 1965

SUBJECT: INSURANCE

Circular Letter 7 (1965)

TO ALL DOMESTIC INSURERS

The purpose of this Circular Letter is to furnish guidance with respect to the character of information which this Department feels usually should be incorporated in appraisals of residential and income properties. Familiarity therewith will be helpful to all insurers in more accurate evaluation of contemplated real estate mortgage investments.

Past experience has demonstrated that frequently appraisal reports lacked adequately appropriate detail to permit a sound investment decision and such lack has impeded the Department's review of evaluations made.

Annexed hereto are summaries of the information suggested to be set forth, when applicable, in appraisals of residential and income properties. It is not intended to confine the appraiser to the format outlined when a departure is warranted.

[SIGNATURE]

Superintendent of Insurance

ATTACHMENT

RESIDENTIAL APPRAISALS

Appraisals of residential properties should include, when appropriate and necessary to the development of a value estimate, a treatment of the following material only in such relevant detail as is essential to the support of the value estimate of the subject property.

I - Neighborhood Data

1. General appeal and prestige.
2. Percentage built-up; and type, class and age range of dwellings.
3. Trends.
4. Occupational groups, income levels and employment sources.
5. Zoning or deed restrictions.
6. Transit.
7. Shopping.

8. Schools, churches and recreational facilities.

9. The local tax situation.

II - Land Description

1. Dimensions.

2. Area and shape.

3. Topography and drainage.

4. Utilities and street improvements.

5. Yard and site improvements.

III - Improvements

1. Description

a. Type and quality of construction.

b. Actual and effective age; remaining economic life.

c. Layout, design and functional utility.

d. Structure (foundation, walls, floors, etc.).

e. Mechanical equipment.

2. Physical condition

3. Area and/or volume

IV - Cost Approach

1. Land Valuation

Development of land value through analysis, comparison and adjustment of sales of similar vacant plots; or, reference to bases upon which value was estimated.

2. Building Valuation

a. Reproduction or Replacement cost.

b. Source of data on cost employed.

c. Measurement of accrued depreciation, if any.

V - Market Approach

Development of total value through analysis, comparison and adjustment of sales of similar improved properties, employing percentile or dollar modifications.

VI - Correlation and Final Value Estimate

VII - Certification

VIII - Qualifications of appraiser (if not employed as Company or correspondent staff appraiser).

IX - Exhibits

1. Photo of subject.
2. Plot diagram.

In order to avoid meaningless repetition, some of the foregoing sections, such as Neighborhood Data, Market Analysis in tract developments, Qualifications of appraiser, etc. may be deemed to be included by reference to previously prepared studies, appraisals or file data.

INCOME PROPERTY APPRAISALS

Appraisals of income-producing properties should include, when appropriate and necessary to the development of a value estimate, a treatment of the following material only in such relevant detail as is essential to the support of the value estimate of the subject property.

I - City or Regional Data

Brief description of economic base of area in terms of population, income, industries, sources of employment, trends, etc.; or a comprehensive development of recent significant changes.

II - Neighborhood Data

1. Section of city and proximity to central business district.
2. Percentage built-up; and type, class and age range of structures.
3. Trends.
4. Transit and other facilities.

III - Land Description

1. Dimensions.
2. Area and shape.

3. Topography and drainage.
4. Utilities and street improvements.
5. Zoning of subject and immediate area.
6. On-site improvements.
7. Highest and best use.

IV - Improvements.

1. Description
 - a. Type and quality of construction.
 - b. Actual and effective age.
 - c. Layout design and functional utility.
 - d. Structure (foundation, frame, walls, floors, roof, etc.)
 - e. Mechanical equipment.
2. Physical condition
3. Area and/or volume

V - Cost Approach

1. Land Valuation

Development of land value through analysis, comparison and adjustment of sales of similar plots; or by a land residual technique in the absence of a sufficient number of such sales.

2. Building Valuation

- a. Reproduction or Replacement cost.
- b. Source of data on cost employed.
- c. Measurement of accrued depreciation, if any.

VI - Income Approach

1. Demand for proposed improvement in terms of competitive facilities, occupancy surveys, trends, etc.
2. Actual operating experience, if existing property.

3. Anticipated income, vacancy allowance and expenses; and exposition of such estimates, particularly of real estate taxes.

4. Processing of net income into value estimate.

5. Explanation of selection of

a. Capitalization method (straight line, annuity, etc.).

b. Residual technique.

c. Interest rate.

d. Remaining economic life estimate or appraisal projection period.

6. Equity analysis and prospects over mortgage term or intermediate periods.

VII - Market Approach

Development of total value through analysis, comparison and adjustments of sales of similar improved properties, where such data are available, using appropriate conversion units to relate to the subject.

VIII - Correlation and Final Value Estimate

IX - Certification

X -Qualifications of appraiser (if not employed as Company or correspondent staff appraiser).

XI - Exhibits

1. Photo of subject.

2. Plot diagram.

3. Floor plan with dimensions (not necessarily scaled).

4. Rent schedule (with digests of long-term leases, if any, in force).

5. Miscellaneous (city, area and strip maps; photos of comparables; statistical data, etc.).

In order to avoid meaningless repetition, some of the foregoing sections, such as City Data, Neighborhood Data, Qualifications of appraiser, etc. may be deemed to be included by reference to previously prepared studies, appraisals or file data.