

THE MERIDIAN VALUATION GROUP

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April 14, 2010

Invoice #3100000

From:

John W. Hibbard
Meridian Valuation Group

To:

James Smith
Central Bank

Subject:

*Appraisal Compliance Review
Agricultural Property
18137 Thomas Grade Road
[uninc] Tracy, California*

Effective Date of Value Opinion:

March 25, 2010

Appraiser:

Jones [CA #AG000000]

PURPOSE OF THIS REVIEW

The purpose of this Appraisal Compliance Review is to summarize my opinion regarding the compliance of the attached appraisal report with the Uniform Standards of Professional Appraisal Practice, 2010-2011 edition, as well as its compliance with Federal Appraisal regulations 12CFR 34, 225 & 323.

This review includes examination of the following:

- 1. Compliance with the USPAP*
- 2. Compliance with the requirements of 12CFR 34, 225 & 323*
- 3. Compliance with the requirements of Central Bank*

SCOPE OF THIS REVIEW, AND LIMITING CONDITIONS

This USPAP Appraisal Compliance Review is subject to the following conditions, and to such other specific limiting conditions as are set forth in the body of the review:

Possession of this review report does not carry with it the right of publication. This review is intended solely for internal use of Central Bank.

The contents of this review shall not be shared, published or distributed for any purpose without my prior written consent. *Exception: Permission is expressly granted to share any and all information contained in this review report with the authors of the report that is the subject of the review, as well as with duly authorized representatives of any Federal banking regulatory agency.*

This report is a *USPAP Compliance Review* prepared in conformance with USPAP Standards Rule 3. This review has been prepared for no other purpose but to test for compliance with the appraisal requirements of Central Bank, which includes USPAP compliance. *This review does not include an opinion of the value of the property that is the subject of the reviewed report.*

Unless stated otherwise in the review report, the analysis, opinions and conclusions in this review are based solely on the data, analyses and conclusions contained in the report reviewed. It is an *extraordinary assumption* of this review that the cited data are representative of the market. No attempt has been made to obtain additional market data for purposes of this review. In the course of the preparation of this review, I did not personally inspect the subject property, nor did I conduct field inspections of any kind.

The analyses, opinions and conclusions expressed in this review are limited by the scope of the review process as described in this review report.

A careful reader will recognize the checklist contained in this review document is not organized in accordance with the USPAP, but reflects the order in which appraisal information is ordinarily presented in the appraisal process. The items on the list are not the individual requirements of the USPAP, but serve to organize the review so the thought process of the reviewer is made transparent to the reader.

USPAP CERTIFICATION

I certify that, to the best of my knowledge and belief:

The facts and data reported by the reviewer and used in the review process are true and correct.

The analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.

I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.

I have no bias with respect to the property that is the subject of this report or to the parties involved in this assignment.

My engagement in this assignment was not contingent upon developing or reporting predetermined results.

My compensation is not contingent on any action or event resulting from the analyses, opinions, or conclusions in this review or from its use.

My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with *The Uniform Standards of Professional Appraisal Practice*.

I did not personally inspect the property that is the subject of the report under review.

No one provided significant real or personal property appraisal, or appraisal review assistance, to me.



John W. Hibbard
CA AG #009239

This page is included in conformance with the requirements of USPAP Standards Rule 3-2(f)

APPRAISAL COMPLIANCE REVIEW
AGRICULTURAL PROPERTY

PURPOSE, SCOPE AND INTENDED USE	YES	NO	NA
1. DATE OF REPORT STATED	X		
2. EFFECTIVE DATE OF EACH VALUE OPINION STATED	X		
3. PROPERTY IDENTIFIED: LEGAL DESCRIPTION	X		
4. PROPERTY INTEREST IDENTIFIED	X		
5. VALUE IDENTIFIED CORRECTLY	X		
6. VALUE DEFINED CORRECTLY		X	
7. EXPOSURE TIME IDENTIFIED CORRECTLY		X	
8. PURPOSE OF APPRAISAL DESCRIBED, ADEQUATE	X		
9. INTENDED USE OF THE REPORT DESCRIBED	X		
10. INTENDED USER IDENTIFIED	X		
11. CLIENT IDENTIFIED AS A FEDERALLY-REGULATED INSTITUTION	X		
12. SCOPE OF WORK ADEQUATE	X		
13. STANDARD ASSUMPTIONS AND LIMITING CONDITIONS	X		
14. HYPOTHETICAL CONDITIONS CORRECTLY DESCRIBED	X		
15. EXTRAORDINARY ASSUMPTIONS CORRECTLY DESCRIBED		X	
16. USPAP CERTIFICATION INCLUDED	X		
17. SALES AND LISTING HISTORY ADEQUATE	X		
18. SIGNATURE OF APPRAISER	X		
19. USPAP REPORTING OPTION CORRECTLY DESCRIBED	X		

comment #6: Central Bank is a federally regulated financial institution. Therefore, this appraisal must include an opinion of *market value* as this term is defined in federal banking regulations. On page 11, the author cites the Appraisal Foundation and the Appraisal Institute as his sources for his definition of market value. *It is my recommendation that this report be amended to show the author's source of definition of market value is a federal bank regulatory agency. Federal Regulations 12CFR 34, 225 & 323*

comment #7: Central Bank is a federally regulated financial institution. Therefore, this appraisal must include an opinion of *market value* as this term is defined in federal banking regulations. The required definition of market value specifies that the value opinion must be based on the appraiser's opinion of exposure time [in the past] and not on the appraiser's guesses about marketing time in the future. On page 12, the author states that his opinion of market value is based on his opinion of *marketing time* in the future. *It is my recommendation that this report be amended to show the exposure time that is the basis of the author's opinion of the market value of the subject property. If the author makes his opinion of market value depend on his opinion about future market conditions, the reliability of his value opinion is degraded. USPAP Standards Rules 1-2(vi)*

comment #15: On page 11 of this report, the author states that he has based his opinion of *liquidation value* on "a severely limited future marketing period specified by the client", but the author does not report the length of the "marketing period" that is the basis of this value opinion. *It is my recommendation this report be amended to address this issue. USPAP Standards Rules 1-2(f), 2-1(c)*

comment #15: The author has not described the subject's source of water. The reader does not know if the property is served by a domestic well, by an agricultural well, or whether the water comes from a shared or unshared source located on or off the property. The water storage facilities are also not described. The value of agricultural properties such as the subject are highly dependent on the quantity, quality and cost of water. If the value opinion shown in this report is based on the *extraordinary assumption* that the subject's water source provides water that is adequate to support agricultural and domestic uses of the property, this assumption should be reported to the reader. *It is my recommendation that this report be amended to address this issue. USPAP Standards Rules 1-2(e), 1-2(f) 2-1(c), 2-2(b)(iii)*

SITE DESCRIPTION	YES	NO	NA
20. NEIGHBORHOOD INFLUENCES DESCRIBED	X		
21. SITE SIZE AND SHAPE ACCURATELY DESCRIBED	X		
22. SITE TOPOGRAPHY ACCURATELY DESCRIBED	X		
23. SITE UTILITY ACCURATELY DESCRIBED	X		
24. SEISMIC HAZARDS ADDRESSED	X		
25. SOILS CONDITIONS ADDRESSED	X		
26. DRAINAGE AND FLOOD HAZARDS DESCRIBED	X		
27. EASEMENTS, RIGHTS OF WAY DESCRIBED	X		
28. INGRESS AND EGRESS DESCRIBED	X		
29. AVAILABILITY OF UTILITIES DESCRIBED	X		
30. RELATIONSHIP TO SURROUNDING LAND USES DESCRIBED	X		
31. ECONOMIC OBSOLESCENCE DESCRIBED	X		
32. ENVIRONMENTAL HAZARDS AND NUISANCES DESCRIBED	X		

comment #29: See comment #15.

IMPROVEMENTS DESCRIPTION	YES	NO	NA
33. ADEQUATE DESCRIPTION OF DESIGN AND APPEAL	X		
34. ADEQUATE DESCRIPTION OF CONSTRUCTION QUALITY	X		
35. ADEQUATE DESCRIPTION OF AGE	X		
36. ADEQUATE DESCRIPTION OF CONDITION	X		
37. FUNCTIONAL UTILITY DESCRIBED	X		
38. EQUIPMENT AND FIXTURES DESCRIBED	X		
39. REAL PROPERTY SEGREGATED FROM PERSONAL PROPERTY	X		

HIGHEST AND BEST USE ANALYSIS	YES	NO	NA
40. CURRENT USE DESCRIBED	X		
41. HIGHEST AND BEST USE CORRECTLY IDENTIFIED	X		
42. SUPPLY AND DEMAND FACTORS ADEQUATELY CONSIDERED	X		
43. PHYSICALLY POSSIBLE USES DESCRIBED	X		
44. LEGALLY PERMITTED USES DESCRIBED	X		
45. FINANCIALLY FEASIBLE USES DESCRIBED	X		
46. MAXIMALLY PRODUCTIVE USE DESCRIBED	X		
47. ADEQUATE ARGUMENT IN SUPPORT OF HIGHEST AND BEST USE	X		
48. VALUE OPINION BASED ON HIGHEST AND BEST USE OPINION	X		
49. [BLANK]			

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THE COST APPROACH TO VALUE [SITE VALUATION]	YES	NO	NA
50. SITE VALUE ESTIMATED BY APPLICABLE METHOD			X
51. ADEQUATE MAPS OF COMPARABLE SITE SALES			X
52. CURRENT AND COMPARABLE SITE SALES CITED			X
53. ADEQUATE DESCRIPTION OF SITE SALES			X
54. ADEQUATE ANALYSIS OF SITE SALES			X
55. SITE SALES: APPROPRIATE ELEMENTS OF COMPARISON			X
56. SITE SALES: REASONABLE ADJUSTMENTS			X
57. ADJUSTMENTS MADE FOR DEVELOPMENT COSTS			X
58. ADJUSTMENTS MADE FOR TERMS OF SALES, DISCOUNTS			X

THE COST APPROACH TO VALUE	YES	NO	NA
59. UNIT COSTS IDENTIFIED			X
60. SOURCE OF UNIT COSTS IDENTIFIED			X
61. UNIT COSTS PROPERLY APPLIED			X
62. PHYSICAL DEPRECIATION IDENTIFIED			X
63. EXTERNAL OBSOLESCENCE QUANTIFIED			X
64. IMPAIRED FUNCTION OBSOLESCENCE QUANTIFIED			X
65. METHOD OF SITE VALUATION ADEQUATELY DESCRIBED			X
66. CONTRIBUTION TO VALUE FROM SITE IMPROVEMENTS			X

comments #50-#66: The USPAP requires the development of a *cost approach to value*, when applicable. In this report, the author has provided an adequate explanation for his omission of the cost approach from his analysis.

USPAP Standards Rules 1-4(b), 2-2(b)(viii)

THE INCOME APPROACH TO VALUE	YES	NO	NA
67. COMPARABLE RENTAL PROPERTIES ADEQUATELY DESCRIBED			X
68. PROJECTED INCOME AND EXPENSES DESCRIBED			X
69. HISTORICAL OPERATING PERFORMANCE DESCRIBED			X
70. PROJECTED INCOME SUPPORTED			X
71. MARKET RENTS ADEQUATELY SUPPORTED			X
72. ADEQUATE SUPPORT FOR OVERALL RATE			X
73. ADEQUATE BAND OF INVESTMENT			X
74. COMPARABLE RENTAL PROPERTIES ADEQUATELY DESCRIBED			X

comments #67-#74: The USPAP requires the development of an income approach to value, when applicable. In this report, the author has provided an adequate explanation for his omission of the cost approach from his analysis.

USPAP Standards Rules 1-4(c), 2-2(b)(viii)

THE SALES COMPARISON APPROACH TO VALUE	YES	NO	NA
75. SALES COMPARABLES: CURRENT AND COMPARABLE	X		
76. SALES COMPARABLES: ADEQUATE DESCRIPTION	X		
77. SALES COMPARABLES: ADEQUATE ANALYSIS	X		
78. SALES COMPARABLES: ADJUSTMENTS FOR TERMS OF SALES	X		
79. SALES COMPARISON APPROACH: CREDIBLE ARGUMENT	X		

THE OPINION OF LIQUIDATION VALUE	YES	NO	NA
80. UNAMBIGUOUS DEFINITION OF LIQUIDATION VALUE	X		
81. UNDERSTANDABLE DEFINITION OF LIQUIDATION VALUE	X		
82. SPECIFIED “MARKETING TIME” IN THE FUTURE		X	
83. STATEMENT THAT LIQUIDATION VALUE IS NOT MARKET VALUE		X	
84. UNDERSTANDABLE ARGUMENT IN SUPPORT OF LIQUIDATION VALUE		X	
85. CREDIBLE ARGUMENT IN SUPPORT OF LIQUIDATION VALUE OPINION		X	

Comment #82: The period of time that is the basis of the authors opinion of liquidation value has not been reported. *It is my recommendation this report be amended to address this issue.*

comment #82: Definitions of *liquidation value* are not all identical, and are not defined in federal regulations or in the USPAP. It is for this reason that the client, Central Bank, has provided a definition of *liquidation value* for this property to the appraiser.

Definitions of liquidation value reflect the fact that the sellers are not the “typically motivated sellers” that are assumed in the definition of *market value*, but are parties [often lenders] who are impatient to dispose of a real property asset within a set period of time, even if a price equal to market value can not be achieved.

The measure of the sellers’ impatience is reflected by the amount of time they allot for the sale of the asset. In short, these sellers telegraph to the market a willingness to accept less than *market value* for an asset in return for a sale within a time period that is shorter than the *exposure time* that would be required for a sale at *market value*.

Market participants sometime employ terms such as “60-day value” or “90-day value” as shorthand descriptions of the prices they hope to achieve. These are not opinions of *market value*, and these terms are not defined in either federal regulations or in the USPAP.

comments #84-#85: The author has not presented any argument in support of his opinion of liquidation value. *It is my recommendation this report be amended to address this issue.*

RECONCILIATION AND VALUE CONCLUSION	YES	NO	N/A
86. CREDIBLE COST APPROACH TO VALUE	X		
87. CREDIBLE INCOME APPROACH TO VALUE	X		
88. CREDIBLE SALES COMPARISON APPROACH TO VALUE	X		
89. ADEQUATE JUSTIFICATION FOR OMITTING APPROACH TO VALUE	X		
90. ADEQUATE BASIS FOR AN ARGUMENT FOR VALUE	X		
91. CREDIBLE ARGUMENT IN SUPPORT OF THE VALUE CONCLUSION	X		
92. DETAIL ADEQUATE FOR ASSIGNMENT COMPLEXITY	X		
93. VALUE CONSISTENT WITH THE CITED DEFINITION OF VALUE	X		
94. QUALIFICATIONS OF THE AUTHOR INCLUDED	X		
95. QUALIFICATIONS OF THE AUTHOR ADEQUATE	X		

Summary: This report is an unusually clearly written example of a **summary report** of an **appraisal** as these terms are defined in the USPAP. *It is nonetheless my recommendation that the regulatory issues named above be addressed.*

The reader is reminded that the value opinions named in this report are based on the *extraordinary assumption* that the property has a reliable source of water that provides water that is adequate in both quality and quantity to support the agricultural and domestic uses of the property.

On the second page of the letter of transmittal, the author makes reference to the “competency provision” of the USPAP. In 2008 the USPAP was amended, removing the “Competency Provision” and replacing it with the “Competency Rule”.


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