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Exhibit

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APPRAISAL SUBCOMMITTEE
Federal Financial Institutions Examination Council

ANNUAL
REPORT
2009

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The Appraisal Subcommittee

An Introduction

History

The Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council (FFIEC) was created on August 9, 1989, pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI). (See Appendix B, *Statutory References*). Title XI's purpose is to "provide that Federal financial and public policy interests in real estate transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision."

In general, the ASC oversees the real estate appraisal process as it relates to federally related transactions as defined in Section 1121(4) of Title XI.¹ The ASC is an FFIEC subcommittee. The FFIEC was established pursuant to Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The FFIEC is an inter-agency body empowered to set uniform principles for the examination of federally regulated financial institutions.

¹A federally related transaction includes any real estate-related financial transaction which: (a) a Federal financial institutions regulatory agency engages in, contracts for, or regulates; and (b) requires the services of an appraiser.

Members

The ASC has six members, each designated respectively by the heads of the:

- Office of the Comptroller of the Currency (OCC);
- Board of Governors of the Federal Reserve System (FRB);
- Federal Deposit Insurance Corporation (FDIC);
- Office of Thrift Supervision (OTS);
- National Credit Union Administration (NCUA); and
- U.S. Department of Housing and Urban Development (HUD).

Section 1103 of Title XI sets out the ASC's general responsibilities:

- Monitor the requirements established by the States, Territories, and the District of Columbia (States) for the certification and licensing of appraisers qualified to perform appraisals in connection with federally related transactions, including a code of professional responsibility. The ASC reviews each State for compliance with the requirements of Title XI, and the ASC is authorized to take action in the case of non-compliance;
- Monitor the requirements established by the Federal financial institutions regulatory agencies [and the Resolution Trust Corporation*] with respect to appraisal standards for federally related transactions under their jurisdiction, and determinations as to which federally related transactions under their jurisdiction require the services of a State certified appraiser or State licensed appraiser;
- Maintain a National Registry (Registry) of State certified and State licensed appraisers who may perform appraisals in connection with federally related transactions; and
- Monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

*The Resolution Trust Corporation was dissolved in 1995.

Message from the Chairman

Twenty years ago, Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (Title XI) led to the creation of the Appraisal Subcommittee (ASC). Title XI empowered the ASC with the responsibility to oversee the functions of the State appraiser regulatory programs and the Appraisal Foundation, and to provide Federal grants to the Appraisal Foundation boards—the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB).

The 2009 Annual Report presents an overview of the ASC's accomplishments during its eighteenth year of operation. Working with the Federal financial institutions regulatory agencies and HUD (Member Agencies), the Appraisal Foundation and the States, the ASC continues to focus on its mission to: (1) oversee the appraiser regulatory programs established by the States, Territories and the District of Columbia (States); (2) monitor the requirements addressing appraisal standards for federally related transactions; (3) maintain the National Registry of State certified and licensed appraisers; and (4) monitor and review operations of the Appraisal Foundation.

State Appraiser Regulatory Program Oversight

Fifty-five States and Territories (States) have laws and regulations in place that enable them to fulfill their role as administrators of their individual appraiser licensing and certification programs (Program). All States require, at a minimum, that certified appraisers meet the *Real Property Appraiser Qualification Criteria* as adopted by the AQB (AQB Criteria). The AQB Criteria include education, experience, and examination requirements, and are accompanied by Interpretations and Guide Notes. The States also have laws in place requiring certified and licensed appraisers to conform to the *Uniform Standards of Professional Appraisal Practice* (USPAP) when performing

appraisals in connection with federally related transactions and other real estate-related financial transactions.

Due to ongoing concerns with several States' Programs, in 2007 the ASC determined that increasing the frequency of ASC Compliance Reviews of States' Programs (Compliance Reviews) would be beneficial. Beginning in 2008, the ASC began conducting Compliance Reviews no less than once every two years, whereas previously Compliance Reviews were conducted no less than once every three years. Additionally, in 2009 the overall process was modified to provide the States the opportunity to respond to the ASC staff findings prior to finalization of the Compliance Review. The year 2009 marked the first full year of the new process and the results appear to be positive. Revisions to the Compliance Review process allows the States to review ASC staff's Preliminary Findings. States are then invited to respond to the ASC staff Findings and/or make alterations to their Program. Any response or Program alterations are considered by the ASC in its final disposition of the Compliance Review. The ASC staff monitors required, as well as recommended, corrective actions and areas of concern on a State-by-State basis. Results from the 2009 Compliance Reviews indicate that the revised process and more frequent interaction with the States are improving overall compliance with Title XI. The 2009 Annual Compliance Review Findings (see Appendix C, *2009 Annual Compliance Review Findings*) presents non-compliance occurrences organized by compliance requirement.

Compliance Reviews consist of assessing the States' Programs for compliance with Title XI in accordance with the ASC Policy Statements and the AQB Criteria regarding State certification and licensing of real estate appraisers. In 2009, the ASC completed 24 Compliance Reviews and one Follow-up Review. In addition, ASC staff conducted six State Priority Contact visits which are scheduled on an as-needed basis.

Appraisal Foundation Monitoring and Oversight

The Appraisal Foundation (Foundation) through its two boards, the AQB and the ASB, serves as the congressionally authorized source of appraiser qualifications and appraisal standards. In monitoring the Foundation's Title XI-related activities, ASC staff attends all AQB, ASB, and Foundation Board of Trustees meetings. ASC staff also reviews all proposed and final published documents regarding the AQB Criteria and USPAP. Written comments are made to the Foundation or its boards on an as-needed basis.

ASC Grants

The ASC funds much of the Foundation's Title XI-related activities. In 2008, the ASC agreed to provide the Foundation an additional grant for the development, presentation, and hosting of State Investigator Training Courses. The course was developed and sponsored by the Foundation and the Association of Appraiser Regulators Officials (AARO). During 2009, the course was offered in four locations across the country. Attendance at these courses was exceptional: 49 of the 55 States attended, and over 160 State investigators, board members, attorneys and board staff participated. The grant included funding for attendees' materials, lodging, and travel expenses for at least three individuals from each State. The goal was to promote more effective complaint investigation and resolution by establishing training for State investigators. The training covered topics such as USPAP and proper investigative techniques, and provided resources to aid the States in their investigative process of complaints against appraisers.

In 2009, the ASC received National Registry submissions from all States. The States generally submit Registry data, including enforcement actions, no less than monthly. At year-end, the Registry contained over 116,000 entries, down approximately 4% from the 121,000 entries at the end of 2008. (See Appendix D, *National Appraiser Credential License and Certification Statistics*.)

Policy Statements

The ASC periodically issues Policy Statements to assist the States in the continuing development and maintenance of appropriate organizational and regulatory structures within their Programs for certifying, licensing and supervising real estate appraisers. The Policy Statements reflect the general framework that the ASC uses to review a State's Program for compliance with Title XI.

No substantive changes were made to the Policy Statements in 2009. In 2010, the ASC plans to undertake a comprehensive review of the current Policy Statements and amend them as necessary. Prior to adopting any significant changes to the Policy Statements, the ASC will publicly expose proposed changes and solicit comments from the States and other interested parties. Once the ASC is confident that there has been adequate exposure and feedback, the ASC will consider final adoption of any revisions.

ASC Policy Statements are available on the ASC website at <https://www.asc.gov> or by contacting the ASC staff at (202) 289-2735.

Due to the positive feedback from the States, the ASC approved additional funding for two more basic level and two advanced investigator courses for 2010. The advanced courses are intended for those individuals who have already successfully completed the initial training course.

The ASC approved a grant to finance the Foundation's efforts to develop an approval process to review college graduate degree programs to assess whether these programs substantially meet the requirements of the AQB Criteria's required core curriculum. Graduates of programs deemed equivalent will have a substantial portion, if not all, of their course work recognized as meeting the AQB Criteria's educational requirements for certification. The ASC also provided grants for the ongoing work of both the ASB and AQB. The ASC provided \$1.42 million in grant funding to the Foundation in fiscal year (FY) 2009.

Financial Overview

The ASC's expenses for the fiscal year (FY) ending September 30, 2009, were approximately \$3.45 million, including approximately \$1.42 million in grant payments to the Foundation. Nearly \$3.1 million in National Registry fees were collected, which is a slight decrease from nearly \$3.2 million collected the previous year (FY 2008). The ASC's FY 2009 audited financial statements are presented in Appendix A.

Staff Changes

In March 2009, James R. Park was named Executive Director of the agency. Mr. Park is a certified general appraiser and has over 24 years of risk management experience in the mortgage banking and appraisal professions.

He is the third individual to hold the position of Executive Director.

In February 2009, the ASC added a fourth Policy Manager, Neal Fenochietti. Mr. Fenochietti has over 23 years of experience with the Massachusetts Division of Professional Licensure where he began as a Real Estate Investigator. He served for ten years as the Associate Director for the Board of Real Estate Brokers and Salespeople, and the Board of Registration of Real Estate Appraisers.

In October 2009, the ASC added a second Administrative Officer, Claire Brooks. Ms. Brooks has an extensive background with the Federal government, including positions with the National Credit Union Administration and the United States Patent and Trademark Office.

National Registry

As required by Title XI, the ASC maintains a National Registry (Registry) of all certified and most licensed appraisers in the United States. The Registry is accessible at the ASC's website (<https://www.asc.gov>), and is open to and used by appraisers, Federal and State agencies, regulated financial institutions, users of appraisal services, and consumers. The Registry allows users to determine whether a person is State certified or licensed to perform appraisals in connection with federally related transactions. Users can also determine whether a person's credential has been suspended, revoked, or surrendered (in lieu of State enforcement action).

By making this information publicly available, the Registry facilitates temporary practice and reciprocity, assists State agencies in enforcing their appraiser-related statutes

The Registry contains both public and non-public data (e.g., certain disciplinary action information). Access to non-public data is restricted to authorized State and Federal agency representatives. Use of the Registry is free to the public.

The Registry is one of several features of the ASC's website. The public can read and download ASC correspondence, Title XI, ASC Policy Statements, charts summarizing State appraiser requirements, and State agency contact information. In addition, the website has a comprehensive Freedom of Information Act "reading room" that is updated regularly and conforms to the Electronic Freedom of Information Act Amendments of 1996, 5 U.S.C 552(a)(2). During 2008, improvements were made to some of the search engines, and a Frequently Asked Questions document was added to further improve the usefulness of the ASC website.

- and regulations, and enables consumers and users of appraisal services easy access to an appraiser's credential status and history. Further, financial institutions and other users are able to use the Registry in other ways, such as:
- Receiving automatic notifications by email each day about new revocations, suspensions, surrenders, and certificate/license expirations;
- Downloading all releasable information or parts of the Registry into predefined queries and user-customized queries; and
- Verifying the status of a credentialed appraiser.

Appraisal Subcommittee

Member Representatives

The Appraisal Subcommittee is made up of six individuals appointed by and representing the heads of the Federal financial institutions regulatory agencies (Agencies) and HUD. Title XI requires the FFIEC to appoint a chairperson from the member representatives to serve a two-year term.

Virginia Gibbs, Chairman, 2004–2009, Senior Supervisory Financial Analyst, Division of Banking Supervision and Regulation, Federal Reserve Board, and member from November 1992 to present.

Steven D. Fritts, Member, Associate Director, Risk Management Policy, Division of Supervision and Consumer Protection, Federal Deposit Insurance Corporation, October 2002 to present (Alternate Member, Beverlea S. Gardner).

Robert L. Parson, Member, Appraisal Policy Specialist, Credit and Market Risk Division, Office of the Comptroller of the Currency, April 2009 to present (Alternate Member, Doreen Ledbetter).

Vance S. Price, Member, National Bank Examiner, Credit and Market Risk Division, Office of the Comptroller of the Currency, October 2007 thru March 2009 (Alternate Member, Doreen Ledbetter).

Deborah Merkle, Member, Project Manager, Risk Management, Supervision Policy, Office of Thrift Supervision, December 2004 to present (Alternate Member, William J. Magrini).

John Kutchey, Member, Deputy Director, Office of Examination and Insurance, National Credit Union Administration, March 2009 to present (Alternate Member, Joy Lee).

Peter Gillispie, Member, Appraiser and Housing Program Policy Specialist, Office of Single Family Program Development, HUD, August 2008 to present (Alternate Member, Donna Tomposki).

Administration of the Appraisal Subcommittee

ASC Staff

James R. Park, Executive Director (March 30–present)

Denise E. Graves, Deputy Executive Director

Alice M. Ritter, General Counsel

Vicki A. Ledbetter, Appraisal Policy Manager

Jenny Howard Tidwell, Appraisal Policy Manager

Kristi Klamet, Regulatory Policy Manager

Neal Fenochietti, Regulatory Policy Manager (February 1–present)

Lori L. Schuster, Administrative Officer

Claire Brooks, Administrative Officer (October 11–present)

Ray M. Seward, Information Management Specialist

Monthly meetings of the ASC

The Subcommittee holds monthly meetings, portions of which are open to the public. Instructions on how to submit a request to attend a meeting are available on the ASC website. The meeting agenda is posted on the website approximately five business days prior to the scheduled meeting.

Monitoring State Appraiser Regulatory Programs

The ASC monitors each State's appraiser licensing and certification regulatory program (Program) for compliance with Title XI, AQB Criteria and ASC Policy Statements. Review of the States' Programs focuses on three key components of Title XI: (1) implementation and enforcement of USPAP and the AQB Criteria; (2) adequacy of the States statutory or regulatory authority to successfully carry out its Title XI-related functions; and (3) consistency with Title XI in the decisions of the States' Programs. Monitoring State Programs is largely accomplished through the on-site visits to the States (i.e., Compliance Reviews).

The ASC has maintained closer contact with the States over the past 24 months. By increasing communication (both formal and informal), the ASC has been better able to resolve issues in States' Programs before they become critical. For example, the ASC has increased the number of on-site Compliance Reviews of select State Programs. Currently, the ASC performs an on-site Compliance Review of each State at least once every two years. ASC staff also visits States experiencing compliance issues at least annually until the concerns are resolved.

The ASC identified 8 States that collectively represent nearly 50% of the appraiser credentials on the National Registry. Since these States represent a significant number of the credentials on the National Registry, the ASC staff performs annual on-site reviews of these States. The States are California, Colorado, Florida, Georgia, Illinois, New York, Texas, and Virginia (listed alphabetically). Additionally, when a specific concern is identified that requires special attention by the ASC staff, a Priority Contact Review for that particular State is scheduled on a case-by-case basis.

In 2009, the appraisal policy managers conducted 31 on-site visits. The increased contact with the States appears to be producing some improvement in the States' Programs. The number of Compliance Review Findings (see Appendix C, *2009 Annual Compliance Review Findings*) declined

in 2009 as compared to 2008. Given the lack of resources faced by many States, the ASC views these results as positive. States face significant challenges given the current financial environment, which may have negative implications for some State Programs. It is important that the fees generated and retained by the Programs are sufficient to maintain a compliant Program.

ASC staff and board members also maintain contact with other industry participants, including consumers, regulators, lenders, and appraisers. Written communications are available on the ASC website under the Freedom of Information Act (FOIA) Reading Room tab under Resources and Records.

Compliance Review Program

In 2009, the ASC implemented revisions to the Compliance Review process. The new process provides the States with an opportunity to review the ASC staff's Preliminary Findings, and ask questions and provide their response to the ASC. Reviews are scheduled to coincide with a meeting of the Program's decision-making body whenever possible, and are conducted over a two- to four-day period. The ASC's review criteria remains relatively unchanged. The major change is the method of communicating the ASC staff's Preliminary Findings to the States. Once ASC staff completes their Preliminary Findings, which are communicated in an ASC staff report to the State, the State is given 60 days to respond. The ASC staff then considers the State's response(s) and makes formal recommendations to the ASC for final disposition. The ASC considers the ASC staff report and recommendations along with responses from the State Program before rendering a decision. The ASC issues a final report and letter to the State with a determination of the State's compliance with Title XI. The general areas of non-compliance with Title XI and the number of States experiencing those problems are presented in the *2009 Annual Compliance Review Findings* table (Appendix C).