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# Appraisal Subcommittee

*Federal Financial Institutions Examination Council*

July 14, 2003

The Honorable Susan Collins  
Chairman, Committee on Governmental Affairs  
United States Senate  
Washington, DC 20510

The Honorable Tom Davis  
Chairman, Committee on Government Reform  
United States House of Representatives  
Washington, DC 20515

Dear Chairmen:

As required by 31 U.S.C. 720, the Appraisal Subcommittee (“ASC”) is submitting this letter as its response to the General Accounting Office (“GAO”) report titled, *Regulatory Programs – Opportunities to Enhance Oversight of the Real Estate Appraisal Industry* (GAO-03-404). In general, we find that the report presents an appropriate synopsis of the appraiser/appraisal regulatory environment as envisioned by Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended, (“Title XI”) and implemented by various Federal, State, and private entities. We were pleased to note that, based on information reported to GAO, real estate appraisals have not been a major factor in the failure of depository institutions since the passage of Title XI.

On page 37 of its report, GAO makes four recommendations regarding the ASC. We address each of these recommendations below in the order presented in the report.

- **Develop and apply consistent criteria for determining and reporting States’ compliance levels with Title XI requirements.**

GAO reports that, in reviewing the letters that we write to States containing the findings of our field reviews, GAO found “no evidence of transparent criteria for how the [ASC] determined and reported states’ compliance levels.” GAO further noted that the letters sometimes were inconclusive about whether a State was in compliance with Title XI or failed to contain the rationale for determining whether a State was or was not in compliance. We understand, from discussions with GAO staff, that GAO is suggesting that we employ some type of rating system under which we would assign an overall compliance rating to each State.

Generally, compliance with Title XI is not an all or nothing situation. We evaluate a State’s compliance with specific Title XI provisions and consider several factors to determine a State’s overall level of compliance (*e.g.*, whether a weakness was part of a pattern and practice or an isolated incident; whether the State was aware of the Title XI provision; whether the State exhibited willingness to address the weakness; and, whether the weakness had been noted in previous reviews of that State). We work with each State to address any identified weaknesses and to provide appropriate guidance for the State to achieve compliance with Title XI.

In the past, the ASC considered developing a rating system that would rank each State's compliance with Title XI, and concluded that such a rating system would not assist the ASC in efforts to ensure compliance with Title XI. However, based on GAO's recommendations, we will review this issue again.

- **Explore potential options for funding or otherwise assisting states in carrying out their Title XI activities, particularly the investigation of complaints against appraisers.**

As noted in our comments to GAO, the ASC lacks legal authority to provide funding to States for complaint investigation purposes. Also, each State is better positioned to identify its needs and to address fee/income issues to resolve those needs. In most cases, our observations indicate that State appraiser regulatory programs would have adequate funding if the State provided the program with the fee income from appraisers, rather than having those funds flow into the State's general fund.

The ASC has provided some non-financial assistance through our participation in several investigation workshops and sessions, along with representatives from the Appraisal Standards Board and the Association of Appraiser Regulatory Officials ("AARO"). The ASC has been, and will continue to be, willing to participate in any educational or other forum that furthers Title XI's goals.

GAO suggested, as an example, that the ASC could encourage several States to pool investigative resources or use other options to help address temporary shortages of trained investigators in one State. On several occasions, the ASC has referred a State to either AARO or specific States when we believed that the State might benefit from assistance provided by that source. Also, individual States, such as Kentucky, have provided investigatory training sessions to other States. Such sharing, although beneficial, is not an answer to the very serious funding/resource issues facing so many States. Indeed, sharing resources likely would increase State costs, especially travel expenses.

GAO also suggested that the ASC could use its field review reports to identify funding gaps as an issue negatively affecting States' ability to comply with Title XI. In a number of field review reports, the ASC staff has addressed this issue. Additionally, the ASC has discussed funding and resource limitations in field review letters and other correspondence to individual States. We have been told by most of these States that our letters have been instrumental in the appraiser regulatory program obtaining needed resources. We plan to continue this activity.

- **Explore alternatives for providing future grant funding, including drawing on its surplus if necessary, to the Appraisal Foundation and its two boards in support of their Title XI activities.**

The ASC is committed to funding the Appraisal Foundation and its two boards at appropriate levels to help defray the Foundation's costs of carrying out its Title XI responsibilities. As we consider future grant applications, we will explore both short-term and long-term considerations of how best to accomplish this goal.

- **Work with Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development (“HUD”) to help ensure that referrals of problem appraisals (1) are provided to states in a format that is useful to the state appraisal agencies, and (2) facilitate the [ASC’s] efforts to monitor decisions made by states regarding the supervision of appraiser practices.**

The ASC concurs with GAO that better communication and cooperation between Fannie Mae, Freddie Mac, HUD, the ASC, and the States could improve the overall quality of complaint investigations. We will be contacting representatives of Fannie Mae, Freddie Mac, HUD, and AARO to set up a meeting to discuss complaint referral, investigation, and follow-up policies and procedures. Our goal will be to develop referral forms, processes, and follow-ups that will, to the greatest extent possible, facilitate quality referrals and investigations.

If you have any questions, please contact myself or ASC Executive Director Ben Henson.

Sincerely,

Steven D. Fritts  
Chairman