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# Appraisal Subcommittee

*Federal Financial Institutions Examination Council*

December 19, 2002

Mr. Harry Quigley  
8128 Walker Road  
Knoxville, TN 37938

Dear Mr. Quigley:

This letter responds to your November 21, 2002 letter, which was received via Internet E-mail. You ask the following 13 questions in your letter and asked that we answer each question.

- (1) *Given the responsibility for establishing appraiser qualifications criteria, why did the five-appraiser-member AQB [Appraiser Qualifications Board] not prescribe a curriculum of classroom and field work including completed appraisal reports, followed by state or national exam, evidencing prima facie one's competence to enter the appraiser industry?*

Questions regarding the AQB decision-making process should be directed to the AQB.

- (2) *Why has the ASC not levied non-recognition status against those approximately twenty-five states which have NOT adopted the AQB criteria?*

All States have adopted the AQB's criteria for Certified appraisers. Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended, ("Title XI") requires States to adopt and enforce those criteria. States, however, are not required to adopt the AQB's criteria for Licensed appraisers. While almost all States that have a Licensed classification have chosen to adopt the AQB's Licensed criteria, those States have done so voluntarily. The ASC does not pressure States to adopt a Licensed classification or to conform their Licensed classification requirements to those adopted by the AQB.

- (3) *Why have one-half of the states not adopted AQB criteria?*

Please see our answer to question two.

- (4) *Why have one-half of the states adopted the AQB criteria?*

Please see our answer to question two.

- (5) *The Tennessee Association of Realtors includes 17,000 members, yet there are only 1450 Licensed/Certified appraisers in Tennessee. Hundreds of those realtors are value experts in certain property areas, everyday completing Competitive Market Analyses and advising their clients at what price to sell or purchase a property. Hundreds of those realtors have taken or would take appraisal education courses to become appraisers only to find no Certified appraiser willing to apprentice them. Is that good public policy?*

The AQB does not require individuals seeking to enter the appraiser profession to apprentice to other appraisers. AQB Criteria provides that individuals wishing to become State certified or licensed appraisers obtain certain amounts of experience prior to obtaining an appraiser credential. While apprenticeship is one method of obtaining such experience, it is not required by AQB Criteria. There are other methods of obtaining acceptable experience. See Supplement No. 1 to the AQB Criteria for discussion of one option. While the AQB has established suggested criteria for a Trainee classification, the AQB does not require States to establish a Trainee classification or to use its suggested criteria for such classification.

- (6) *Do you believe the AQB criteria as adopted and applied by some states have effectuated a monopoly over the supply of appraisers in those states? Why or why not?*

The AQB establishes minimum criteria for certified appraisers and recommended minimum criteria for licensed appraisers. States have considerable flexibility in establishing appraiser classifications and criteria beyond the minimums required by Title XI and established by the AQB. For example, each State makes its own choices regarding the use of trainee or trainee-like classifications and the minimum levels of its licensing criteria. We have seen no information regarding whether so-called monopolies may or may not exist.

- (7) *Do you believe that the best goods and services, at the lowest prices, flow from open-market competition? Do you support continued exclusion of the supply of appraisers from the open-market system?*

Our duties under Title XI are specified in that Title. We have no authorities regarding competition among appraisers. Our only related responsibility is to assure that a sufficient number of State licensed or certified appraisers exists to perform appraisals in connection with federally related transactions. We have not seen anything to indicate that shortages of such appraisers exist. Should such a shortage be determined, Title XI provides an avenue to address the shortage. See 12 U.S.C. 3348(b).

- (8) *If you were a mortgage lender or an investor in a mortgage of \$300,000 on a property in Tennessee, which of the following two individuals would you most trust in performing an appraisal to support your decision: (1) Theodore who just received his Masters Degree in Real Estate Appraisal from John Hopkins University but can't find an appraiser to apprentice him in Tennessee, or (2) Billy Bob who just graduated from high school in Tennessee, took 30 hours of appraisal courses, then began an apprenticeship with Uncle Randy?*

It is not appropriate for the ASC staff to respond to hypothetical questions that do not relate to the ASC's duties and responsibilities under Title XI.

- (9) *It is commonly accepted in the appraisal industry that there are three approaches to valuing property: Sales Comparison Approach; Cost Approach; and Income Approach. The essence of being a competent appraiser is not an endless or excessive number of appraisals of certain property types; the essence of being a competent appraiser is*

*knowing which value approach is appropriate for each type of property, and how to apply that approach to determine a value. Why do you agree or disagree with these two statements?*

You should address these questions to the Appraiser Qualifications Board, which is authorized to establish minimum criteria for appraisers, and to the Appraisal Standards Board, which is authorized to create and interpret standards pertaining to appraisal valuation approaches.

- (10) *ASC Policy Statement 1 declares that AQB criteria “must not unduly restrict entry” into the appraisal profession. What is meant by that statement?*

ASC Policy Statement 1 does not address entry into the appraisal profession. Policy Statement 2, however, has a number of references concerning that subject:

The fourth paragraph of Policy Statement 2 provides that, “Any State or Federal agency or other user of appraisal services may impose additional appraiser qualification requirements if they consider such qualifications necessary to carry out their responsibilities under Federal statutes and regulations. Additional State imposed requirements, however, must not unduly restrict the ability of persons to become State certified or licensed appraisers.”

The first paragraph of Section B provides that, “Title XI . . . does [not] establish State appraiser licensing as an entry level or trainee designation. States are free to establish meaningful qualifications criteria for licensed appraisers, including education, testing, experience, and continuing education requirements that demonstrate knowledge and competency. If States choose, they may base their licensing standards on the AQB’s ‘Licensed Real Property Appraiser’ classification, and all States should require persons to pass a meaningful, State approved written test before receiving a license. Such a test may be one issued or endorsed by the AQB, but, in any event, a qualified source should independently review and validate the test.”

The second paragraph of Section B provides that, “The ASC acknowledges that the AQB’s recommended experience and education criteria for ‘Licensed Real Property Appraiser’ are meaningful and encourages States to adopt them. The ASC, however, recognizes that other meaningful ways exist for the States to ensure that persons of demonstrated competency qualify for State licensing by using different combinations of education and experience requirements in conjunction with an appraiser testing program. States may consider one or more of the following approaches:

- Less than the AQB-suggested hours of experience, if such experience was obtained under the direct supervision of a State certified or licensed appraiser;
- State agency review of a minimum number of appraisal reports prepared by the applicant;
- A practical examination consisting, for example, of the satisfactory completion of one or more appraisal reports from case studies or an actual field appraisal;
- A higher level of required education, such as a degree in real estate appraisal or similar degree; and

- A program in which the State agency grants a ‘trainee’ license under the AQB’s suggested Trainee Real Estate Appraiser classification criteria or other reasonable method designed to enable an individual, who has the required education and has passed an appropriate examination, to obtain the experience [and training] necessary to demonstrate his or her competence within a limited period of time.”

The last paragraph of Section B states, “However, as set out above, the ASC recognizes that there is a need for programs to facilitate the entry of individuals into the profession and is encouraging States to create meaningful mechanisms to help ensure the entry of competent individuals into the appraisal profession.”

Section C states, “On August 3, 1993, the AQB adopted qualification criteria for a new Trainee Real Property Appraiser classification. The ASC endorses this classification and encourages the minority of States that have not yet adopted the criteria to do so.”

As you can see, we have provided considerable guidance to States on this issue. However, determining whether a State requirement unduly restricts the ability of persons to become State certified or licensed appraisers would require a case-by-case analysis depending on all circumstances involved in the situation.

- (11) *There is no inherent competence in any number of experience hours or calendar months, but there is inherent knowledge in a prescribed curriculum of classroom and field work including completed appraisal reports, followed by state or national exam on that curriculum. Why do you agree or disagree?*

Title XI assigns responsibility to the AQB for making determinations regarding appraiser qualifications. The ASC does not have the authority to substitute its judgment for the AQB’s regarding these issues.

- (12) *For each appraiser license level, the AQB criteria specify a number of experience hours to be accumulated, and a MINIMUM number of calendar months in which those hours can be completed. Are these requirements purely arbitrary, or can you cite underlying principles and reasons?*

The AQB went through a public exposure and comment process for all appraiser criteria. Proposals were revised based on public input. A common definition of “arbitrary” is “Determined by chance, whim, or impulse, and not by necessity, reason, or principle.” AQB Criteria result from an established process that, properly applied, eliminates arbitrary decisions. We have seen no indication that the criteria you question are arbitrary.

- (13) *Suppose Congress established a subcommittee to establish education and experience requirements for every profession in America, and all such committees forced an apprenticeship on all professional aspirants, the way AQB has forced an apprenticeship on appraiser aspirants. Jim Villa just completed four years of undergraduate study at George Washington University, followed by three years of law school at the same school. He has now passed the DC bar examination and would like to practice law in Washington, DC. All DC licensed lawyers have his resume, but no lawyer is willing to*

*apprentice him. He notices that some lawyers have hired friends and, yes, some firms have second and third generation family names on their plaque. As months go by, Jim Villa discovers that most of his law school classmates have met his fate: no licensed lawyers willing to apprentice. Soon, Jim finds that his fate is shared by all professional aspirants in America, doctors, engineers, teachers, architects, etc. America has become a society not based on open-market competition, but on the monopolistic whims of those professionals who were licensed at the time Congress passed the enabling legislation. What should Jim do? He knows that his abilities are wasting, and the Public Interest has been plundered. He knows Billy Bob, the recent high school grad who took 30 hours of appraisal courses and began an apprentice with Uncle Randy in Tennessee; Billy Bob may be able to “hook up” Jim with Uncle Randy. Jim is aware that Senator Sarbanes chairs the Congressional committee with oversight of all the subcommittees. Jim decides to appeal to the intellect and reasoning of Senator Sarbanes to effect change in the licensing and experience requirements, not merely that Jim can fulfill his aspirations to practice law in DC, but for the absolute good of all Americans. Did Jim make the right call, Ben?*

It is not appropriate for the ASC staff to respond to hypothetical questions that do not relate to the ASC’s duties and responsibilities under Title XI.

Please contact us if you have further questions.

Sincerely,

Ben Henson  
Executive Director