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Appraisal Subcommittee

Federal Financial Institutions Examination Council

January 21, 2005

Mr. D. Lorenzo Padron, Director
Department of Financial and Professional Regulation
Division of Banks and Real Estate
310 S. Michigan Ave, Suite 2130
Chicago IL 60604-4278

Dear Mr. Padron:

Thank you for the cooperation and assistance of the Illinois Real Estate Appraiser Board (“Board”) and the Department of Financial and Professional Regulation, Division of Banks and Real Estate’s (“Division”) staff in the November 8-10, 2004 Appraisal Subcommittee (“ASC”) review of Illinois’ Real Estate Appraiser Regulatory Program (“Program”).

Based on our review of the Program, we find that Illinois is not in substantial compliance with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended (“Title XI”). The Program has serious weaknesses in the following areas: awarding credentials to appraisers who failed to meet Appraiser Qualifications Board (“AQB”) criteria; accepting affidavits to support experience claims without having an acceptable validation process; charging excessive temporary practice fees; and accepting distance education courses that do not conform to AQB criteria. The Division must address these issues to bring the Program into compliance with Title XI. ASC staff will perform a follow-up review in approximately six months to monitor your progress in addressing these deficiencies.

- **Illinois issued certified appraiser credentials to persons failing to document that their experience conformed to AQB certification criteria.**

In 2001, the Illinois legislature amended its appraiser statute to abolish the licensed appraiser classification. The amendment became effective July 1, 2002, but granted a 15-month grace period in which licensed appraisers could continue practicing while attempting to gain the necessary experience and/or education to upgrade to a certified credential. Effective September 30, 2003, licensed appraisers who failed to qualify for an upgrade to a certified classification were downgraded to the new Associate Appraiser classification.

Since approximately July 2002, the Division awarded certified credentials by accepting a combination of affidavits, appraisal logs, and letters to support the experience claims of appraisers upgrading to certified status. While the proper use of appraisal logs is an acceptable method of documenting experience (Illinois had used them correctly in the past), the procedures followed by the Division to process the high volume of Licensed appraisers seeking upgrades to certified credentials did not follow acceptable procedures.

For example, the Division accepted letters of affirmation from supervisors and, sometimes, from the applicants themselves. Many of these letters did not reference Uniform

Standards of Professional Appraisal Practice (“USPAP”)-compliant work and, in some cases, stated that the appraiser did not have appraisal reports and/or other records to support the experience. Moreover, some applicants stated in their letters that they were in training or were from “appraisal families,” but did not provide any tangible support of acceptable experience. Our staff also discovered that some applicants were allowed to sit for the certified residential examination and, after passing the exam, were issued certified residential credentials if they were close (*e.g.*, within two months) to meeting the AQB’s 24-month minimum experience requirement.

The ASC has concerns over whether these individuals met the certification experience requirements given the State’s previous practice of allowing individuals to obtain a licensed credential by meeting only the education and examination portions of AQB criteria. Applicants were not required to have any experience to obtain a licensed credential, nor has their work as licensed appraisers been tracked. Therefore, the State had no reasonable basis on which to conclude that an appraiser holding a Licensed credential for more than two years actually had the appraisal experience to meet AQB criteria. Nevertheless, the State allowed these individuals to claim the necessary 24 months to qualify for certified residential status.

To address this issue, the Division needs to:

1. Immediately stop issuing certified credentials to persons who cannot support that they conform to AQB criteria;
2. Within 30 days of receiving our letter, identify all appraisers who obtained a certified credential since July 1, 2002, and provide a listing of those appraisers to the ASC;
3. Within 60 days of receiving our letter, contact the appraisers identified in step 2 and request an appraisal log or other documentation to support their experience claims (if the Division does not have such supporting documentation in its records);
4. Within 90 days of receiving our letter, review the appraisal logs or other documentation for all appraisers identified in step 2 to determine whether the appraisers conform to AQB criteria;
5. Within 120 days of receiving our letter, downgrade to the appropriate classification appraisers who cannot support their certified credential or who fail to submit supporting documentation; and
6. For those appraisers who did not have the necessary experience at the time the certified credential was issued, but who now have obtained the requisite appraisal experience, reissue the certified credentials with corrected effective dates.

- **Illinois accepted affidavits supporting experience for certified credentials without having an acceptable validation process as provided in ASC Policy Statement 10.**

The Division accepted various forms of affidavits to conclude that applicants met the AQB's minimum experience requirements for certification. The Illinois application for appraiser credentialing included a statement allowing appraisers to attest to their months of appraisal experience. The Division also accepted letters attesting to experience hours, rather than requiring an experience log.

ASC Policy Statement 10 provides that States, at a minimum, should have a reliable means of validating both the education and experience claimed for certification or licensing. Illinois did not employ a reliable means of validating experience credit claimed as required under ASC Policy Statement 10.

To address this concern, the Division needs to take steps immediately to conform to new paragraph F of ASC Policy Statement 10. Also, the Division needs to follow the corrective steps listed in the previous bullet section for appraisers who were issued certified credentials based on affidavits.

- **The State's temporary practice fee is excessive.**

Title XI provides that a State appraiser certifying or licensing agency shall not impose excessive fees, as defined by the ASC. ASC Policy Statement 5 establishes that temporary practice fees above \$150 are excessive and burdensome. Since our previous field review, the Department increased its temporary practice fee from \$150 to \$200.

The Division needs to amend its regulations as soon as possible to reduce its temporary practice fee to \$150 or less. Please provide a copy of the amended regulations to ASC staff.

- **Continuing education courses do not conform to AQB criteria.**

ASC staff identified six continuing education courses approved by the Board and Division that did not meet AQB criteria for distance education courses. To be acceptable for certified appraisers, if the distance education course is not offered by an accredited college or university, the course's delivery method must be approved by the International Distance Education Certification Center ("IDECC"). These six courses lacked this approval.

The Board and Division need to review as soon as possible all distance education courses to determine whether they have IDECC approval. The Board and Division need to rescind approval for any courses that fail to meet this requirement and ensure that all distance education courses used for continuing education purposes conform to AQB criteria in the future.

- **The Division had not adopted the 2004 version of USPAP.**

Section 10-10 of Illinois' appraiser regulatory statute requires all persons credentialed under the statute to comply with standards of professional appraisal practice adopted by the Division. Illinois Rule § 1455.230 incorporated by reference the 2002 USPAP version. ASC

staff, however, could not find any indication that the Board or Division amended the regulation to incorporate the 2004 version of USPAP. Notwithstanding, Division staff stated that in practice the Board and Division have enforced the 2004 version of USPAP. The Board or Division needs to amend this regulation as soon as possible to adopt the most current USPAP to avoid conflicts between law and practice.

Unless otherwise noted above, please respond to our findings and recommendations within 60 days from the date of this letter. Until the expiration of that time or the receipt of your response, we consider this field review to be an open matter. After receiving your response or the expiration of the 60-day response period, whichever is earlier, this letter, your response and any other correspondence between you and the ASC regarding this field review become releasable to the public under the Freedom of Information Act and will be made available on our Web site.

If you have any questions, please contact us.

Sincerely,

Virginia M. Gibbs
Chairman

cc: Gertrude Kelly, Assistant Director
Division of Banks and Real Estate

Mike Brown, Director of Real Estate Appraisal Administration

Young Brockhouse, Licensing and Education Manager