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# Appraisal Subcommittee

*Federal Financial Institutions Examination Council*

June 30, 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 your May 27, 2005 letter describing the actions taken by the Illinois Real Estate Appraiser Board (“Board”) and the Department of Financial and Professional Regulation, Division of Banks and Real Estate (“Division”) in response to our concerns about the Illinois real estate appraiser regulatory program (“Program”) described in our January 21, 2005 field review letter (“January 21<sup>st</sup> letter”).

We are pleased that the Division has made some efforts to address our concerns. We are disappointed, however, that those efforts have not been adequate to resolve the Program’s weaknesses. It remains our position, therefore, 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”). As discussed below, Illinois has failed to take the necessary curative actions within the specified time frames to resolve the concerns identified in our November 2004 field review and reported to you in our January 21<sup>st</sup> letter.

- **Illinois issued certified appraiser credentials to persons failing to document that their experience conformed to Appraiser Qualifications Board (“AQB”) certification criteria.**

In our January 21<sup>st</sup> letter, we concluded that, since approximately July 2002, the Division had awarded certified credentials to persons failing to document that their experience conformed to AQB certification criteria. To address this concern, the Division needed to take the following steps:

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.

The Division failed to comply with these curative steps.

In your May 27<sup>th</sup> letter, you responded to step number one by stating, “currently, only applicants who have verified that they have successfully completed all pre-license education and have 2500 hours of appraisal experience gained over a period of no less than 24 months are allowed to sit for the examination.” Step one required you not to issue any additional certifications to persons who cannot support conformance with AQB criteria. Your response, however, focused on applicants sitting for the certification examination and not on certificate issuance. In addition, your response only related to certified residential appraisers (who must have at least 2,500 hours of experience); it does not address certified general appraisers. During our follow-up review in August, we will review a sample of certifications issued since our November 2004 field review to ensure that both certified residential *and* certified general credentials are issued only to persons who conform to AQB criteria.

In step two, you were directed to provide the ASC with a listing of all appraisers who obtained a certified credential since July 1, 2002. This listing was due to the ASC within 30 days of your receiving our January 21, 2005 letter. You have failed to provide this listing.

In steps three and four, you were directed to audit all certified credentials issued since July 1, 2002. You stated in your letter that “[The Division] is auditing applications of all certified residential real estate appraisal licenses issued between June 1, 2003 and October 30, 2003.” Our directive was to audit all certified credentials. This includes both certified residential and certified general credentials. This audit requirement applies to certified credentials issued since July 1, 2002, through the date of our field review, November 2004, not to only those issued between June 1, 2003 and October 30, 2003. These audits were to have been completed within 90 days of receiving our January 21, 2005 letter. From your response, it appears that the Division is not auditing the correct appraiser population, nor were the audits completed within the required deadline.

Because of the Division’s failure to complete the first four curative steps, steps five and six also were not completed.

To address our concerns, the Division needs to comply with the curative steps in this and our January 21<sup>st</sup> letters no later than July 31, 2005. We will review compliance with these requirements when we return for our follow-up review in August.

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

In our January 21, 2005 letter, we concluded that Illinois accepted various forms of affidavits to conclude that applicants met the AQB's minimum experience requirements for certified credentials. The 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.

To address this concern, we directed the Division to conform to new paragraph F of ASC Policy Statement 10 regarding acceptance of affidavits on a going forward basis. And, we directed the Division to follow the corrective steps listed in the previous bulleted section for appraisers who were issued certified credentials based on affidavits.

In your May 27<sup>th</sup> letter, you stated "Affidavits attesting to experience earned were accepted by Illinois during the calendar years 2002 and 2003. In instances when applicants attempted to verify their own experience in written correspondence, Illinois policy was to require a statement under oath from a third party who could establish the type of appraisal experience gained. This topic will be re-addressed after the application audit review."

We are unsure of the meaning of your last sentence. Nonetheless, requiring a "statement under oath from a third party" does not conform to AQB criteria, nor does it meet Title XI's and ASC Policy Statement 10 F.'s requirements for certified appraiser credentials. You must cease accepting such "statements" immediately. The Division needs to take steps immediately to conform to ASC Policy Statement 10 F. regarding acceptance of affidavits. The Division also needs to follow the corrective steps listed in the previous bullet for appraisers who were issued certified credential based on affidavits and/or oaths. We will review this area in detail during our follow-up review.

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

We appreciate the Division's prompt attention to this issue. Please keep us updated on the status of the proposed regulatory amendment and forward a copy to us when it is adopted.

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

We appreciate the Division's actions to review distance education courses to determine whether they have IDECC approval. Your letter, however, addressed only the courses identified by ASC staff during our review. As directed in our January 21<sup>st</sup> letter, the Division needs to review *all* distance education courses to ensure their conformance to AQB criteria. We will review this area during our follow-up review.

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

Your response stated that the Division intends to seek a regulatory amendment to adopt the 2004 edition of USPAP. As noted in our January 21<sup>st</sup> letter, the Board needs to adopt the most current version of USPAP, which is the 2005 edition. Therefore, the Division needs to adopt this version of USPAP. Also, the Board and Division need to establish procedures to ensure that, in

the future, the regulations are amended in a timely manner to adopt the most current version of USPAP.

ASC staff will perform a follow-up review of Illinois' Program on August 15-18, 2005. Our review will closely re-examine the areas of concern identified in our January 21<sup>st</sup> letter. To assist in that review, please provide us the following information by August 1, 2005 (please note that the following items are in addition to all of the other steps required above):

1. A listing of appraisers who obtained a certified residential or certified general credential from July 1, 2002 through November 30, 2004;
2. A listing of appraisers identified in step one whose files failed to contain the necessary experience documentation to support conformance to AQB criteria; and
3. The listing must contain, at a minimum, the following information for each appraiser identified in steps one and two:
  - a. Name;
  - b. Credential number;
  - c. Type of credential (certified general or certified residential);
  - d. Date certified credential issued;
  - e. AQB Experience Compliant ("Yes" or "No");
  - f. Reason (if not compliant);
  - g. Action Taken (for non-compliant appraisers); and
  - h. Status.

Please contact us if you have any questions.

Sincerely,

Ben Henson  
Executive Director

cc: Gertrude Kelly, Assistant Director, Division of Banks and Real Estate  
Mike Brown, Director of Real Estate Appraisal Administration