

Appraisal Subcommittee

Federal Financial Institution Examination Council

March 10, 1997

Julie Kosmalski, Licensing Supervisor
Licensing Department
Minnesota Department of Commerce
133 East 7th Street
St. Paul, MN 55101

Dear Ms. Kosmalski:

Thank you for your cooperation in the December 2-3, 1996 Appraisal Subcommittee ("ASC") review of the appraiser regulatory program within the Licensing Division of the Department of Commerce ("Department"). As a result of that review, the ASC recommends certain changes to improve the integrity of your program.

- **Investigators do not appear to have adequate expertise and education to review complaints and make recommendations regarding appropriate disposition.**

Our review of the files revealed a number of instances where apparent violations of the Uniform Standards of Professional Appraisal Practice ("USPAP") were not discovered by the investigators. It appears that most of these violations were undetected because the investigators were not sufficiently knowledgeable about USPAP requirements and did not explore potential USPAP violations unless specifically cited in the complaint. This may arise because it appears that investigators limit their review of complaint documents only to the complaint as characterized by the complainant.

Because USPAP is a "living document" and because appraising is not an exact science, we recommend that the Department utilize specific investigators to review appraiser complaints. These investigators should be trained in basic appraisal principles and remain abreast of USPAP changes. Investigators also should be encouraged to initiate related investigations if documentation obtained during the investigatory process reveals appraiser activities that may warrant disciplinary action. Alternatively, you may wish to consider using volunteer appraisers to review complaints and associated documents for technical compliance with USPAP. This approach is used very effectively in a number of States. If you are interested, please contact us for details.

- **Investigators are able to close enforcement cases at any point in the investigatory process without further review.**

We understand that each investigator assigned to a complaint case is afforded a high level of autonomy, including the ability to close a complaint investigation without further review, providing the investigator does not recommend disciplinary action. While this approach may facilitate the handling of complaints, given the issue cited above, we are concerned about the potential lack of quality control regarding the investigators' decisions. At a minimum, we recommend the Department establish a quality control program to randomly review investigators' decisions to close investigations and to ensure disposition is consistent, appropriate and in accordance with State law and regulations.

- **Minnesota does not specifically prohibit Registered appraisers from independently performing appraisal assignments in connection with federally related transactions.**

Registered appraisers have not met the eligibility requirements to perform appraisals in connection with federally related transactions under Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They may, however, assist State certified or licensed appraisers in performing such appraisals, provided they are directly supervised. We recommend that the Department issue a written notification to all State regulated appraisers and financial institutions clarifying that a Registered appraiser is not eligible to perform appraisals in connection with federally related transactions without direct supervision by a State certified or licensed appraiser.

- **Until November 15, 1996, Minnesota did not collect Registry fees from appraisers reciprocally licensed or certified.**

We understand that, due to a misunderstanding of ASC Registry requirements, Registry fees were not collected from reciprocally licensed or certified appraisers for their initial licensing period. We recognize that the Registry fee is collected from these individuals with each subsequent renewal of the license or certificate issued. As noted in Statement 6 of the *ASC Policy Statements Regarding State Certification and Licensing of Real Estate Appraisers* (August 4, 1993), State reciprocity should include the "collection and forwarding to the ASC of the National Registry fee for each reciprocally licensed or certified appraiser."

The Department, therefore, should collect Registry fees from those appraisers awarded reciprocal licenses or certifications between August 31, 1995, and November 15, 1996, the date policies were amended to correct this situation. Each appraiser must pay \$25 for each year or fraction of a year remaining on his or her initial licensing/certification period. The Department then must transmit the Registry data and fees to the ASC.

- **Minnesota's Certified Residential appraiser educational requirements could impede reciprocity.**

The education hours required for the Licensed and Certified General levels are equivalent to those in the Appraiser Qualifications Board ("AQB") Criteria. Certified Residential appraisers, however, are required to have 165 hours of education instead of the 120 hours required by the AQB. Higher education requirements could hinder reciprocity between Minnesota and other States. The Department may wish to consider amending its regulations to reduce the requisite hours of education to those required by the AQB. If the regulation remains unchanged, please ensure that the State's higher educational requirement for Certified Residential appraisers is not used to reject otherwise acceptable reciprocal agreements with other States.

Please respond to our findings and recommendations within the next 60 days. If you have any questions regarding this matter, please do not hesitate to contact us.

Sincerely,

Herbert S. Yolles
Chairperson

cc: Barbara Lessard, Enforcement Supervisor