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Appraisal Subcommittee
Federal Financial Institutions Examination Council

December 17, 1997

Patricia McCormick, Deputy Secretary
Department of Regulation and Licensing
1400 East Washington Avenue
P.O. Box 8935
Madison, WI 53708-8935

Dear Ms. McCormick:

Thank you for your cooperation during the September 22-24, 1997 Appraisal Subcommittee ("ASC") review of the Wisconsin appraiser regulatory program ("program") performed pursuant to § 1118 of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("Title XI").

We first reviewed your program in November 1992. The main topic of our resulting letter to you was your State's 500-hour experience requirement for licensure. Specifically, we expressed our concern that an experience requirement below the 2,000 hour "safe harbor" level established by the Appraiser Qualifications Board ("AQB") would increase the burden on lenders and other users of appraisals in determining competence and may lead to many licensed appraisers unknowingly engaging in behavior contrary to the Uniform Standards of Professional Appraisal Practice ("USPAP"). While we decided to reserve judgment, you were told this issue would be addressed in future reviews.

We have concluded that the 500-hour experience requirement is "meaningful" and consistent with Title XI and ASC Policy Statement 2B. We checked applications of licensed appraisers and complaints involving licensed individuals. The education taken by licensed and certified appraisers was sufficient. The State's licensing exam was re-approved by the AQB in 1994. In addition, of the 164 complaints filed over the years, only 17 (about 10%) involved licensed appraisers. Because approximately 700 of the State's 2,500 appraisers are licensed, this proportion of complaints relating to licensed appraisers is very low. We will continue to monitor the meaningfulness of your licensing experience requirement in the future.

At the time of our initial review, three other issues were addressed. Wisconsin did not have a program established to investigate complaints of appraiser misconduct. You did not have established procedures on how to accept temporary practice requests and issue permits. And, no distinction between transitionally licensed appraisers and appraisers licensed based on the completion of all State requirements was denoted on the licenses issued. We are pleased that procedures were immediately adopted to cure the first two issues. Regarding the last issue, while no distinguishing marks were ever placed on the licenses of transitionally licensed individuals, a 1993 amendment to the transitional licensure section of your appraiser regulation statute required all transitional licenses to expire two years from the date of issuance or by January 1, 1996, whichever occurred first. Therefore, no unresolved issues exist.

The following recommendations are submitted to further enhance your program's compliance with Title XI.

- **The Wisconsin Real Estate Appraisers Board ("Board") does not balance its responsibility of protecting the public and its responsibility under Title XI to effectively supervise licensed and certified appraisers to ensure compliance with USPAP.**

Investigative cases have been closed without any corrective actions even though technical reviews by a Board member documented significant USPAP violations. USPAP violations and appraiser educational deficiencies were not addressed by the Board because the Board believed that either the public was not seriously harmed by the appraiser's actions or the expense of pursuing the violation would greatly exceed the value to the public to pursue the matter.

We also noticed a relatively large number (at least eleven) of alleged repeat offenders. Each of these appraisers had two or more complaints, frequently regarding similar issues, that remained open for several years without final action being taken. One of these multiple complaints was filed by the FDIC in 1996. Not only did the appraiser involved have two previous complaints pending, the FDIC complaint was not acted upon in a timely manner. File documentation noted that, in all of these instances, the original complaints were awaiting attorney action and were placed on hold for possible use as evidence in subsequent complaints against the same individual. While we agree that information from previous complaints can and should be used to evaluate new cases submitted on an individual appraiser, action regarding the preceding complaint should not be placed on hold, as has been the practice.

We understand the Board's responsibility to consider public harm in its decision making. Nonetheless, the Board also has a responsibility under Section 1117 of Title XI to assure the effective supervision of the activities of certified and licensed appraisers. USPAP violations are breaches of the State's statute and regulations and should not be dismissed out of hand. Potential USPAP violations need to be investigated and, if confirmed, appropriate action taken. These actions can range from simple warning letters for "first time offenders" to more serious actions for repeat offenders or for very serious first offenses.

To address these issues, your Department, in conjunction with the Board, needs to redesign your complaint review process. This process should establish a specific timeline and parameters for each phase of the complaint disposition process based on a policy that ensures each complaint is considered on its own merits. Additionally, this process should ensure that technical findings of Board members assigned to the case are pursued and appropriate actions are taken.

- **The complaint screening board dismissed a complaint, which appeared to contain sufficient evidence to proceed.**

We reviewed all complaints dismissed by the complaint screening board in 1996 and 1997. We agreed with all but one of its decisions. A dismissed anonymous complaint (No. 97APP005) appeared to have sufficient evidence to at least prompt a preliminary inquiry. The complaint inferred that the comparable sales used in an appraisal report were fraudulent. It does not appear that Wisconsin verified the comparables through the Multiple Listing Service ("MLS"). At a minimum, Wisconsin should have verified the comparables to determine whether they were valid or fraudulent. We verified the MLS numbers and the comparables and

determined that they do not match. We suggest that the complaint screening board reconsider its decision to dismiss this case and we encourage the complaint screening board to pursue cases vigorously, particularly those that allege fraud.

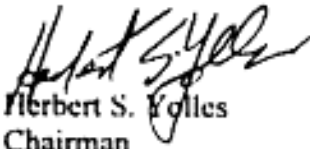
- **Wisconsin does not have reciprocity agreements.**

Wisconsin does not have reciprocal agreements with other States. Title XI, as amended, charges the ASC to encourage the development of reciprocal agreements that readily authorize appraisers who are licensed or certified and in good standing in one State to perform appraisals in other States. We recognize that Wisconsin offers reciprocity by endorsement, provided that the out-of-State appraiser passes a 40-question State law exam. We also understand that your Department staff plans to participate in a regional meeting of adjacent and nearby States to discuss reciprocity this Winter. We support your efforts to meet with other jurisdictions on this issue and urge you to enter into reciprocity agreements with them.

Please respond to our findings and recommendations within 60 days from the date of this letter. Until the expiration of that period 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 regarding these matters, please do not hesitate to contact us.

Sincerely,



Herbert S. Egles
Chairman

cc: Mary Reavey, Chairperson
Alfred Hall, Director Bureau of Business and Design Professionals
Judy Mender, Program Assistant