

Letter of Transmittal

January 31, 1994

The Appraisal Subcommittee of the
Federal Financial Institutions Examination Council
Washington, D.C. 20037

The President of the Senate
The Speaker of the House of Representatives

Pursuant to Section 1103 of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3310), I am pleased to submit the 1993 Annual Report of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council.

Sincerely,

Fred D. Finke
Chairman

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Message from the Chairman

Once again, in 1993 significant progress was made in implementing the national scheme of appraisal regulation envisioned by Title XI of FIRREA. Indeed, 1993 was the first year that Title XI was fully in place and related Federal and State regulatory programs were in full operation. Actions taken by the Appraisal Subcommittee ("ASC") of the Federal Financial Institutions Examination Council ("FFIEC"), the States and their appraiser regulatory agencies ("State agencies"), the Appraisal Foundation ("Foundation") and its Appraiser Qualifications Board ("AQB") and Appraisal Standards Board ("ASB"), and the Federal financial institutions regulatory agencies ("Agencies") all have contributed to this progress.

By the end of 1993, more than 80,000 real estate appraisers were either licensed or certified by the States and carried on the ASC's National Registry of State Certified and Licensed Appraisers ("National Registry"). All of the States had rules in place requiring applicants to meet at least the AQB established minimum standards for certified appraisers and to pass an AQB endorsed examination. In December, the ASB published the 1994 edition of the Uniform Standards of Professional Appraisal Practice ("USPAP"). Thus, entities charged with enforcing Title XI and USPAP, such as the Agencies and State agencies, and users of appraisal services could easily obtain the most current version of USPAP.

The ASC published its Policy Statements Regarding State Certification and Licensing of Real Estate Appraisers in August. This document combined and updated the prior Revised Guidelines and other ASC communications with the States. The Policy Statements are designed to contribute to greater consistency in the implementation and interpretation of Title XI. The ASC also amended and expanded its regulations with regard to the Privacy Act of 1974 and the Freedom of Information Act. The ASC continued to monitor and review the activities of the Foundation and fund the portions of its expenses that relate to the activities of the ASB, the AQB and the membership activities of its Board of Trustees.

ASC staff visited 18 States during 1993 in a continuation of its program of performing field reviews of State appraiser regulatory programs. This brought the total number of States visited to 39 since implementation. In general, the ASC continues to find States to be in compliance with the intent of Title XI. Indeed, the activities of the State agencies have, for the most part, appeared fair, thoughtful and dedicated to Title XI's successful implementation.

During 1993, the ASC continued to work closely with the five Agencies as part of its ongoing responsibility to monitor their compliance with the requirements of Title XI. Several of the Agencies asked for comments on a proposal to amend their appraisal regulations which, among other things, would increase the uniform threshold level above which a Title XI appraisal is required from \$100,000 to \$250,000. The Agencies also propose to clarify the phrase, "real estate collateral taken in an abundance of caution," and to establish a \$1,000,000 regulatory exemption for business loans that do not rely upon the real property as a means of repayment. The proposal would also eliminate the Agencies' added appraisal requirements over USPAP and would permit some use of USPAP's Departure Provision. In general, the Agencies would expect that appraisals in Federally related transactions will be performed in accordance with USPAP. At the end of the year, the Agencies had not taken final action on the proposals. The ASC took steps to strengthen the coordination and cooperation between it, the Agencies and the State agencies respecting their respective appraiser and appraisal compliance programs.

On December 30, 1992, the ASC issued, with the FFIEC's concurrence, an interim temporary waiver order respecting the Commonwealth of the Northern Mariana Islands ("CNMI"). During 1993, the CNMI proceeded to provide for the education and examinations required for it to come into full compliance with Title XI. The ASC is satisfied with the performance of the CNMI under its temporary waiver requirements. No other requests for waivers have been received by the ASC. While a serious nationwide shortage of real estate appraisers has not occurred, localized shortages, particularly in non-urban areas, may exist. The ready availability of State certified and licensed appraisers at a reasonable price remains a major point of debate in the Agency appraisal regulation process. Many of the lenders are encouraging the Agencies to raise the threshold base their argument on appraiser shortages. The ASC is studying this area to determine whether such shortages exist and remains ready to address any identified shortages through its temporary waiver process.

The ASC's expenses for the year ending September 30, 1993, were \$1,324,669. This amount includes \$489,919 in grant payments to the Foundation. The ASC operated during the year on funds advanced from its Treasury account. ASC Treasury advances from inception through September 30, 1993, totalled \$3,983,847.

In 1993, the ASC received National Registry submissions from all 50 States, plus the District of Columbia, Guam, CNMI, the Virgin Islands and Puerto Rico. At year-end, the Registry contained the names of more than 80,000 appraisers. During 1993, the ASC received Registry fees totalling \$2,120,100. From January 1992 through December 1993, Registry fees amounting to \$3,580,050 have been submitted to the ASC.

In November 1993, the ASC sponsored its third Conference for State Appraiser Regulators. Representatives of 44 States attended. While temporary practice and reciprocity are still issues in the States, the primary interest of many States has shifted to the issue of enforcement. All of the States have incorporated USPAP into their State statutes or regulations, and many States have established and have begun to initiate disciplinary proceedings against appraisers who appear to violate USPAP. Indeed, some State agencies already have revoked or suspended licenses or certifications of appraisers who have violated USPAP.

During 1994, in addition to continuing its monitoring role of the Agencies and the Foundation, the ASC plans to complete its first round of field reviews of State appraiser regulatory programs and intends to make follow-up visits when appropriate.

The Appraisal Subcommittee — An Introduction

The ASC was created on August 9, 1989, pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). The purpose of Title XI is to "provide that Federal financial and public policy interests in real estate transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision." In general, the ASC oversees the real estate appraisal process as it relates to federally related transactions, as defined in Section 1121(4) of Title XI. The ASC is a subcommittee under the FFIEC. The FFIEC was established pursuant to Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 to create an interagency body empowered to prescribe uniform principles for the Federal examination of financial institutions.

The ASC is comprised of six members, each being designated respectively by the heads of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration and the Department of Housing and Urban Development ("HUD"). Section 1103 of Title XI sets out the ASC's general responsibilities. The Section instructs the ASC to perform the following functions:

- Monitor the requirements established by the States, territories and the District of Columbia ("States") for the certification and licensing of appraisers. The ASC reviews each State's compliance with the requirements of Title XI and is authorized by Title XI to take action against non-complying States;
- Monitor the requirements established by the Agencies and the Resolution Trust Corporation ("RTC") regarding appraisal standards for federally related transactions and determinations of which federally related transactions will require the services of State licensed or State certified appraisers;
- Maintain a national registry of State licensed and certified appraisers who may perform appraisals in federally related transactions;
- Monitor and review the practices, procedures, activities and organizational structure of the Foundation; and
- Transmit an annual report to Congress regarding the activities of the ASC during the preceding year.

Activities of the ASC

The ASC's activities are presented in chronological order for 1993. At its January meeting, the ASC denied a request from a corporate information processor for data in the ASC's National Registry respecting disciplinary actions taken by State agencies against individual certified or licensed real estate appraisers. Next, the ASC reviewed, discussed and submitted written comments to the AQB on its first Exposure Draft that would change the minimum hours of education needed to qualify as a certified residential real estate appraiser. Last, the ASC began an in-depth discussion and analysis of its existing *Revised Guidelines Regarding State Certification and Licensing of Appraisers*, with a view towards updating and improving them to incorporate and consider emerging regulatory issues.

The ASC submitted its 1992 Annual Report to Congress on January 31, 1993.

In February, the ASC reviewed and approved a field review schedule for the rest of 1993. In addition, the ASC approved a final order granting CNMI temporary waiver relief and, on February 17, 1993, requested FFIEC approval of the order. The final order was approved by the Chairman of the FFIEC on February 18, and the order was published in the *Federal Register*. 58 FR 11235 (February 24, 1993). Finally, the ASC began an analysis and discussion regarding obtaining a financial audit of the ASC's books and records.

During March, the ASC authorized the staff to provide a speaker in response to a request from the Appraisal Institute's Young Advisory Council for a meeting in Washington, D.C., later in the month. And, after considering various providers of financial auditing services, the ASC voted to authorize Price Waterhouse to conduct an audit of the ASC. Finally, on March 19, 1993, the ASC, by notational vote, unanimously approved a resolution awarding a grant to the Appraisal Foundation for the calendar year 1993 in the amount of \$608,054.

In April, the ASC authorized a staff member to speak at an upcoming meeting of the National Association of Master Appraisers. In addition, the ASC reviewed and discussed the ASB's first Exposure Draft on permitted disclosure from specific guidelines and authorized the staff to draft an ASC response. Finally, the ASC agreed to hold a State Regulators Conference on November 22 and 23, 1993.

In May, the ASC authorized F. Finke to continue his term as Chairperson of the ASC on an acting basis until the FFIEC formally exercises its powers to appoint a Chairperson under Title XI of FIRREA. And, the ASC discussed a first draft of a document updating and improving the *Revised Guidelines*.

In June, the ASC authorized a follow-up letter to Oklahoma, responding to the State's reply to the ASC's earlier post-field review letter. Moreover, the ASC decided to issue its updated and improved guidance to the States as Statements of Policy and not to publish them in the *Federal Register*. In addition, officers of the Appraisal Foundation provided the ASC with an oral report on the activities of the Foundation and the ASB and AQB. Finally, on June 30, 1993, Price Waterhouse delivered to the ASC audited *Financial Statements and Financial Audit Reports as of and for the year ended September 30, 1992*.

During July, the ASC approved and sent letters to the States of Virginia and Oregon regarding the level of their temporary practice fees. Moreover, the ASC approved and sent a comment letter to each Federal financial institution regulatory agency in response to its proposal of amendments to appraisal regulations, which, among other things, would raise the threshold amount for requiring an appraisal by a State certified or licensed appraiser to \$250,000. The ASC also sent a letter to the Department of Veterans Affairs responding to its request for minority data, if any, contained in the National Registry. That data is not collected by the ASC. The ASC provided the Department with a list of contact persons in each State's appraiser regulatory program. And, finally, the ASC authorized the staff to speak at the FFIEC's Emerging Issues Conference.

During August, the ASC approved and issued the new *Policy Statements Regarding State Certification and Licensing of Real Estate Appraisers*, which replaced the *Revised Guidelines Regarding State Certification and Licensing of Real Estate Appraisers*. The ASC published a notice in the *Federal Register* announcing the withdrawal of effectiveness of the *Revised Guidelines* and their replacement by the *Policy Statements*. 58 FR 44836 (August 25, 1993). The *Policy Statements* were distributed to each State appraiser regulatory agency. The format change from *Revised Guidelines* to *Policy Statements* was appropriate because of the small number of regulatees and the need for regulatory flexibility and comity in dealing with sovereign entities. The *Policy Statements*, however, are intended to serve the same purpose as the superseded *Revised Guidelines* by providing the States and their appraiser regulatory agencies with the ASC's expectations regarding compliance with Title XI.

In September, the ASC also authorized the modernization of the ASC staff's computer hardware and software systems.

In October, the ASC voted to publish in the *Federal Register* for comment proposed amendments to its rules respecting the availability of information. The proposed amendments would enable persons: (1) to obtain copies of ASC final opinions and orders in adjudications, statements of general policy not published in the *Federal Register*, interpretive, no-action requests and responses and certain other correspondence related to ASC field reviews; (2) to request confidential treatment of information subject to the Freedom of Information Act; and (3) to petition the ASC for the issuance, amendment or repeal of an ASC rule. The proposal was published at 58 FR 55029 (October 25, 1993). The ASC also approved a grant for calendar year 1994 to the Appraisal Foundation in the amount of \$525,295. Next, the ASC sent a letter to the AQB commenting on the AQB's Exposure Draft on increasing a number of the appraiser qualification standards for all categories of licensed and certified real estate appraisers. Moreover, the ASC began the process of gathering information about the revocation of an appraisal organization's sponsorship of the Appraisal Foundation. Finally, the ASC sent its annual report to Congress and the Office of Management and Budget under the Inspector General Act of 1978, as amended.

During November, the ASC discussed a number of financial and budgetary issues. The ASC also approved the agenda for the 1993 State Regulators Conference. The ASC in addition sent a letter to several Federal departments, agencies and government sponsored enterprises requesting them to establish a method of routinely informing the appropriate State appraiser regulatory agencies and the ASC about any inappropriate actions by a State certified or licensed appraiser and any agency actions involving State certified or licensed appraisers. Finally, on November 22 and 23, the ASC hosted the third Appraisal Subcommittee State Regulators Conference in Washington, D.C. The conference was attended by approximately 200 State

regulators, appraisers and others affected by Title XI. The agenda included such topics as the ASC Policy Statements and State reviews, the Federal financial institutions regulatory agencies' appraisal rules, USPAP's Departure Provision, entry into the appraiser profession and State enforcement of USPAP.

In December, the ASC reviewed the ASB's *Third Exposure Draft on Permitted Departure from Specific Guidelines for Real Property Appraisals*, including revisions to USPAP, and sent a comment letter to the ASB regarding the Draft. The ASC also reviewed and discussed the status of some State appraiser regulatory programs from which information requests or other matters were pending.

Throughout 1993, the ASC voted during the following meetings to accept the staff field review reports concerning the State appraiser regulatory programs of 17 States. Letters also were approved and sent to those States summarizing the ASC's findings and recommendations and requesting written responses.

January	New Hampshire, Wisconsin and New Mexico
February	Arizona
March	Texas and Florida
April	Maryland and Virginia
May	Pennsylvania
June	New Jersey and Ohio
August	District of Columbia and California
September	Alaska and Washington State
November	Virgin Islands and Idaho

Administration of the ASC

Meetings of the ASC are held monthly. Special meetings may be scheduled at the request of an ASC member. The ASC's activities are funded from two sources. Firstly, Title XI requires State agencies to forward an annual registry fee of at least \$25 to the ASC for each appraiser who seeks to be licensed or certified to perform appraisals in federally related transactions. Secondly, Title XI authorizes a one-time advance from the Secretary of Treasury of \$5,000,000 and also requires that the ASC reimburse the Treasury for funds used. With the registry in place, and being better able to project income, the ASC is now developing plans to reimburse the Treasury.

The ASC is supported by a small, full-time, professional staff in its administrative offices, with the Executive Director acting as the ASC's Secretary. The organization and responsibilities of the ASC's senior staff are as follows:

- Executive Director - Responsible for formulating, implementing and evaluating policies, procedures and programs for carrying out the day-to-day operations of the ASC.
- Associate Director for Administration - Responsible for the registry and for providing financial and facilities management, personnel and payroll, procurement and contracting and governmental technical representative services to the ASC, the Executive Director, and ASC staff.
- Associate Director for Policy and Programs - Responsible for managing the analysis of Federal and State appraisal requirements, formulation of guidelines, development of analytical projects needed to achieve the goals of Title XI and ASC field reviews of State programs for the implementation of Title XI.
- General Counsel - Responsible for the professional legal work of the ASC. Serves as legal advisor to the ASC, its Executive Director and other ASC officers and employees, and renders legal advice with regard to statutes and other laws that concern regulation of the appraisal industry and that govern ASC operations.

The members of the ASC and their terms of service are:

- Chairman, Fred D. Finke, Deputy Comptroller for Special Supervision, Office of the Comptroller of the Currency, September 1990 to present;
- Member, Morris E. Carter, Director, Single Family Development Division, Department of Housing and Urban Development, October 1991 to present;
- Member, Robert F. Mialovich, Associate Director, Office of Policy, Division of Supervision, Federal Deposit Insurance Corporation, November 1989 to present;
- Member, Diana L. Garmus, Deputy Assistant Director for Corporate Activities, Office of Thrift Supervision, September 1990 to present;

- Member, Rhoger H Pugh, Assistant Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, November 1992 to present; and
- Member, Alonzo S. Swann, III, Director, Department of Operations, Office of Examination and Insurance, National Credit Union Administration, December 1991 to present.

The Appraisal Subcommittee staff are:

- Edwin W. Baker, Executive Director
- Ronald W. Peppe, Associate Director for Policy and Programs
 - Vicki A. Ledbetter, Appraisal Policy Manager
 - Linda K. Matthias, Appraisal Policy Manager
- Paul N. Romani, Associate Director for Administration
 - Willa Habersham, Staff Secretary
 - Lori L. Schuster, Head Secretary
 - Ray M. Seward, Information Management Specialist
- Marc L. Weinberg, General Counsel

ASC Financial Statements

In Fiscal Year ("FY") 1989, the ASC received a one-time appropriation of \$5,000,000 to fund its start-up operations. The Treasury Department has determined that the appropriation is an advance, and disbursements made using these moneys must be repaid. Beginning January 1992, the States began remitting to the ASC a fee of \$25 for each licensed or certified appraiser added to the registry. Treasury advances and registry fees constitute the ASC's sole sources of operating funds. Registry fees earned through September 30, 1993, totaled \$2,075,425.

Fiscal year 1990 was the first year in which the ASC incurred obligations to Treasury. Advances through FY 1993 totaled \$3,919,916. The ASC budget for FY 1994 is \$1,723,879. The ASC's fiscal year ends on September 30. The 1994 budget recognizes that the ASC has approved a grant to the Appraisal Foundation for calendar year 1994 in the amount of \$523,295. The ASC is planning to begin repayment of the advance from Treasury during FY 1994. It is anticipated that the repayment of the advance can be accomplished by 1999.

Attached as Appendix C are the ASC's 1992 audited financial statements. An audit of the ASC's 1993 financial statements is now underway.

Field Reviews of State Appraiser Regulatory Agencies

In 1993, as required by Title XI, the ASC continued the process begun in 1991 of monitoring the States' requirements, practices and procedures for the certification and licensing of appraisers who may perform appraisals in connection with federally related transactions. Part of this oversight function is the performance of field reviews of State appraiser licensing and certification regulatory programs.

Prior to a scheduled State field review, the ASC staff forwarded a review data questionnaire for completion by the State agency to provide the ASC a summary of the State's regulatory scheme. The questionnaire requested that the State provide the following: a copy of the most current appraisal laws and regulations; an overview of any pending legislation; administrative information such as the State agency's budget and an organization chart; the titles of the appraiser designations awarded; experience and education requirements for licensing and certification; an explanation of the State's procedures for approving education providers; a description of the State's complaint procedures; and the State's requirements for temporary practice and reciprocity. In addition, prior to the field reviews, ASC staff analyzed the existing State statute, regulations and proposed legislation.

Field reviews usually were scheduled to coincide with a formal State appraiser board meeting and were conducted over a period of two or more days during which the review team:

- Reviewed randomly selected active files of licensed and certified appraisers, including those of appraisers who were granted reciprocity or temporary practice;
- Examined files of applicants denied certification or licensure;
- Reviewed files of complaints of appraiser misconduct and resolutions thereof; and
- Reviewed audit and enforcement procedures.

After the field review, the ASC discussed the staff's findings and recommendations and issued a letter containing the ASC's comments to the State agency. Each State was requested to provide the ASC with a written response to each issue discussed in the ASC letter.

By the conclusion of 1993, a total of thirty-nine State field reviews were performed. Initial field reviews of the remaining States will be completed in 1994. The ASC will determine when follow-up reviews are warranted.

Overall, the State appraiser regulatory programs appeared to be operating in a manner consistent with Title XI. Many of the issues identified as a result of field reviews either have been corrected or will be corrected when State legislative bodies adopt proposed amendments. The ASC will continue to follow-up on those issues identified.

Some issues identified in State reviews continue to require ASC comment. These issues are:

- Some States' statutes or regulations continue to specifically define the type and value of properties which appraiser's holding certain classifications may appraise. Since these requirements differ from the requirements in the Agencies regulations, the ASC continues to identify this area as an issue with States. The ASC's Policy Statements addressed this issue in Statement 2: Appraiser Classifications. This section advises States that they may experience problems if their statutes or regulations specify the types of real estate transactions for which State certified and licensed appraisers may conduct appraisals. The ASC Policy Statement also states that for federally related transactions, these determinations rest with the Agencies. The Agencies have issued regulations prescribing the types of transactions for which certified or licensed appraisers are required. The ASC believes that State statutes and regulations should defer to the Agencies' regulations in this area.
- In addition, some States have specifically included in their statutes or regulations restatements of the requirements set forth in the regulations issued by the Agencies relating to such matters as the value of transactions requiring certified or licensed appraisers, the specific skills of the appraisers and the complexity of the appraisal assignments. Since these Federal requirements may change if appraisal regulations are revised, the ASC recommended that States not include any restatement of the requirements of the Agencies' regulations in State statutes or regulations.
- The ASC continues to monitor and review the appraiser regulatory programs of those few States with licensing requirements that are below the Appraiser Qualifications Board "safe harbor" recommendations. In the Policy Statements, the ASC suggested alternative methods to ensure that persons of demonstrated competency qualify for State licensing. These alternative methods are stated in Statement 2 and provide different combinations of education and experience requirements in conjunction with an appraiser testing program.
- The ASC also addressed States' requirements that overall limit entry to the appraisal field such as requiring new entrants to have a college degree, limiting appraisal experience that may be counted to two of the five years preceding the application, and similar time limitations on education. Most States have adopted efficient and reasonable temporary practice procedures that permit out-of-State certified or licensed appraisers to perform appraisal assignments in connection with federally related transactions. The ASC addressed temporary practice in Statement 5 of the Policy Statements. Among the States reviewed, those that imposed requirements that were felt to be a possible impediment to temporary practice were urged by the ASC to implement appropriate changes. Most of the changes that were recommended related to apparently excessive fees, restrictive limitations on the number of temporary practice permits an out-of-State appraiser was allowed per year, and requirements that out-of-State appraisers be accompanied by an appraiser licensed or certified in the State where the temporary practice permit is granted.

Activities of the Federal Financial Institutions Regulatory Agencies

During 1993, the Agencies (other than the National Credit Union Administration ("NCUA") and the Resolution Trust Corporation ("RTC")) worked to achieve consistency in their appraisal regulations. On June 4, 1993, these Agencies proposed amendments to their respective appraisal regulations that, if adopted, would: (1) increase from \$100,000 to \$250,000 the threshold level at or below which appraisals are not required under Title XI; (2) expand and clarify existing exemptions to the Title XI appraisal requirement, such as the "abundance of caution" exemption; (3) identify additional circumstances when appraisals are not required under Title XI, such as in certain real estate secured business loans less than \$1 million; and (4) amend existing requirements governing appraisal content and appraiser independence. The initial comment period regarding the proposals expired on July 19, 1993. *See* 58 FR 31878. On November 10, 1993, the Agencies published a notice in the *Federal Register* to inform the public that they were placing into the rulemaking record supplemental information primarily relating to the proposed increase in the threshold amount and that they were reopening the comment period until December 10, 1993. *See* 58 FR 59688. At the end of the year, the proposed rules remained under consideration.

On August 11, 1993, pursuant to 1123 of Title XI, the Agencies approved a joint order granting relief from the provisions of Title XI of FIRREA and the Agencies' appraisal regulations for any real estate related financial transaction requiring an appraiser under those provisions so long as the transaction involved real estate located in an area designated a Federal disaster area by the President and the Federal Emergency Management Agency. The order covered those parts of the Midwest which were declared disaster areas as a result of the extensive Spring and Summer flooding.

Finally, in November, the ASC, by letter, requested, and the Agencies agreed, to provide the ASC with certain information to facilitate the performance of its responsibilities under Title XI. More specifically, the ASC requested the Agencies to establish a method of routinely informing the appropriate State agencies about any inappropriate actions by a State certified or licensed appraiser and any Agency actions involving State certified or licensed appraisers. The ASC also requested the Agencies to copy the ASC on all such referrals and any responses from the State agency. The ASC also sent the letter request to the Resolution Trust Corporation, the Department of Veterans Affairs, the Department of Housing and Urban Development, the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, and the Office of Management and Budget.

Activities of the Appraisal Foundation

The Foundation is a private, not-for-profit corporation chartered by Title XI with the responsibility of establishing minimum uniform appraisal standards and appraiser qualifications criteria. The ASC monitored the following activities of the Foundation in 1993.

The Foundation's Board of Trustees ("Trustees")

- In April, the Trustees met and briefed the sixteen new Trustees on the various responsibilities of the Foundation. Overviews were provided on the history, functions, and plans of the Appraisal Foundation's Advisory Council, the Appraisal Standards Board Advisory Council, the Appraisal Qualifications Board, and the Appraisal Standards Board; and
- In October, the Trustees met and made appointments to the Appraisal Standards Board ("ASB") and the Appraiser Qualifications Board ("AQB"). Sherwood Darington was appointed Chair of the ASB and James Klopfenstein was reappointed Chair of the AQB. In addition, the Trustees elected 1994 officers, and fourteen new members to serve at-large. The Appraisers Association of America was conditionally appointed to the Appraisal Foundation Advisory Council ("Council") by the Trustees. The Council is composed of fourteen appraisal organizations which provide input to the Appraisal Standards Board, Appraiser Qualifications Board and the Board of Trustees. The Resolution Trust Corporation and the Mortgage Bankers Association were accepted into membership in the Appraisal Standards Advisory Council by the Trustees. The Appraisal Standards Advisory Council is comprised of over thirty organizations and government agencies which are users of appraisal services.

The Appraiser Qualifications Board

The Appraiser Qualifications Board ("AQB") held quarterly meetings in February, May, August and November of 1993. The following is a summary of AQB activities for 1993.

- In February, the AQB adopted a revision to the Appraiser Qualification Criteria for the Certified Residential Real Property Appraiser Classification. The revision increases the education requirement from 105 classroom hours to 120 classroom hours effective January 1, 1994. The original criteria adopted in March 1991 called for the educational requirement to increase to 165 classroom hours effective January 1, 1994. After consideration of comments, the AQB determined 120 hours to be a more appropriate requirement;
- At its August meeting, the AQB voted to issue for public comment exposure drafts of revisions to the Appraiser Qualification Criteria for the Licensed, Certified Residential and Certified General appraiser classifications. After reviewing comments received at the November quarterly meeting, the AQB agreed to issue a second exposure draft on revisions to criteria for each appraiser classification. The AQB plans to adopt revisions in 1994 with an effective date of January 1, 1998;
- Also in August, the AQB adopted recommended qualification requirements for use by States regarding entry level appraisers. The AQB believes the requirements will provide

assistance to beginning appraisers, supervising appraisers, users of appraisals and regulatory agencies. The basic requirements of the Appraiser Trainee Criteria are: (1) 75 classroom hours of qualifying education, including 15 hours regarding USPAP; (2) 14 hours of continuing education per year; and (3) direct supervision of the trainee by an identified supervisor or supervisors until competency (as discussed in the Competency Provision of the USPAP) is demonstrated for the various parts of the appraisal process. No experience or examination is required;

- At the August meeting, the AQB also voted to revise the Interpretations/Clarifications of the Appraiser Qualification Criteria to include a statement regarding duplicate course credit for qualifying education hours. The ASC found that in some States, hourly credit for education was awarded to applicants for two or more courses covering similar subject matter. Based on the ASC recommendation as well as discussion at the August meeting, the AQB concurred that the education requirement in the Criteria is intended to represent a progression to increase the appraiser's knowledge with each course taken. States are encouraged not to award credit for duplicative courses; and
- In November, the AQB discussed revisions of its Examination Content Outlines ("ECOs") with its consultant and concurred to adopt the ECOs for the licensed, certified residential, and certified general classifications with an effective date of January 1, 1995. All State appraiser examinations are based on ECOs issued by the AQB. Based on the occupational analysis completed by the AQB's psychometric consultant, the AQB issued exposure drafts of revisions to the existing certified residential and certified general examination content outlines. The revisions included changing the names of the current outlines to licensed and certified general, respectively. The AQB also issued an exposure draft of a proposed third ECO for the certified residential classification.

The Appraisal Standards Board

The Appraisal Standards Board ("ASB") held meetings in January, March, May, July, September, and October of 1993. During 1993, the ASB addressed the following issues.

- Advisory Opinion G-10, *The Appraiser-Client Relationship*, resulted from inquiries made to the ASB by regulators, appraisers and users of appraisals. The Advisory Opinion addresses and provides ASB advice regarding the relationship between appraisers and clients in light of the USPAP and federal bank regulations. Advisory Opinions are issued by the ASB periodically to provide advice and illustrate the applicability of a Standard or Statement. Advisory Opinions are not enforceable;
- Advisory Opinion G-3, *Update of an Appraisal*, was revised in 1993 to include the identification of separate sample content outlines for 1-4 family Update Reports and other Update Reports;
- The ASB established a Real Estate Technical Issues Task Force, comprised of individuals with specialized or unique appraisal or appraisal-related experience. The purpose of the Task Force is to provide recommendations or advice to the ASB in specialized areas in which the ASB may lack knowledge or experience. Smaller panels of task force members will be formed to address specific issues. A panel of the Task Force has been formed to address possible USPAP compliance issues in the electronic transmission of appraisal reports. A second panel will study appraisers' responsibilities in considering the adequacy of building components in residential appraisals;

- Due to the need for appraisers and users of appraisals to know when Standards and Statements are effective, the ASB will publish an annual edition of USPAP effective each January 1. A mid-year supplement will also be published which contains the work of the ASB for the first six months of the year and will be sent to all regulatory officials and all purchasers of the USPAP. The 1994 edition of the USPAP contains the work of the ASB through September 1993. In 1989, the ASB approved and adopted the USPAP as the appraisal standards promulgated by the ASB. The ASB published the first annual edition of the USPAP in 1992;
- The ASB published *A Guide for Instructors Teaching Courses or Seminars on the Uniform Standards of Professional Appraisal Practice*. The Guide was developed to provide the foundation for the teaching of USPAP, regardless of the course sponsor, the instructor and the region of the country in which the course is given; and
- The ASB created a Glossary Task Force to develop a glossary of terms used in the USPAP. The Draft Glossary will be exposed for public comment before adoption by the ASB. The task force intends to complete its work for ASB review and public exposure during 1994. The ASB intends to include a USPAP Glossary in the 1995 Edition of the USPAP.

Appendix A - Relevant Statutes

The following is a compilation of Title XI of FIRREA, as amended, and related legislation applicable to the ASC.

TITLE XI--REAL ESTATE APPRAISAL REFORM AMENDMENTS.

SEC. 1101. PURPOSE.

The purpose of this title is to provide that Federal financial and public policy interests in real estate related transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.

SEC. 1102. ESTABLISHMENT OF APPRAISAL SUBCOMMITTEE OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL.

The Federal Financial Institutions Examination Council Act of 1978 (12 U.S.C. 3301 et seq.) is amended by adding at the end thereof the following new section:

SEC. 1011. ESTABLISHMENT OF APPRAISAL SUBCOMMITTEE.

"There shall be within the Council a subcommittee to be known as the 'Appraisal Subcommittee', which shall consist of the designees of the heads of the Federal financial institutions regulatory agencies. Each such designee shall be a person who has demonstrated knowledge and competence concerning the appraisal profession."

SEC. 1103. FUNCTIONS OF APPRAISAL SUBCOMMITTEE.

(a) *In General.*--The Appraisal Subcommittee shall--

- (1) monitor the requirements established by States for the certification and licensing of individuals who are qualified to perform appraisals in connection with federally related transactions, including a code of professional responsibility;

(2) monitor the requirements established by the Federal financial institutions regulatory agencies and the Resolution Trust Corporation with respect to--

(A) appraisal standards for federally related transactions under their jurisdiction, and

(B) determinations as to which federally related transactions under their jurisdiction require the services of a State certified appraiser and which require the services of a State licensed appraiser;

(3) maintain a national registry of State certified and licensed appraisers who are eligible to perform appraisals in federally related transactions; and

(4) transmit an annual report to the Congress not later than January 31 of each year which describes the manner in which each function assigned to the Appraisal Subcommittee has been carried out during the preceding year.

(b) *Monitoring and Reviewing Foundation.*--the Appraisal Subcommittee shall monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

SEC. 1104. CHAIRPERSON OF APPRAISAL SUBCOMMITTEE; TERM OF CHAIRPERSON; MEETINGS.

(a) *Chairperson.*--The Council shall select the Chairperson of the subcommittee. The term of the Chairperson shall be 2 years.

(b) *Meetings; Quorum; Voting.*--The Appraisal Subcommittee shall meet at the call of the Chairperson or a majority of its members when there is business to be conducted. A majority of members of the Appraisal Subcommittee shall constitute a quorum but 2 or more members may hold hearings. Decisions of the Appraisal Subcommittee shall be made by the vote of a majority of its members.

SEC. 1105. OFFICERS AND STAFF.

The Chairperson of the Appraisal Subcommittee shall appoint such officers and staff as may be necessary to carry out the functions of this title consistent with the appointment and compensation practices of the Council.

SEC. 1106. POWERS OF APPRAISAL SUBCOMMITTEE.

The Appraisal Subcommittee may, for the purpose of carrying out this title, establish advisory committees, hold hearings, sit and act at times and places, take testimony, receive evidence, provide information, and perform research, as the Appraisal Subcommittee considers appropriate.

SEC. 1107. PROCEDURES FOR ESTABLISHING APPRAISAL STANDARDS AND REQUIRING THE USE OF CERTIFIED AND LICENSED APPRAISERS.

Appraisal standards and requirements for using State certified and licensed appraisers in federally related transactions pursuant to this title shall be prescribed in accordance with procedures set forth in section 553 of title 5, United States Code, including the publication of notice and receipt of written comments or the holding of public hearings with respect to any standards or requirements proposed to be established.

SEC. 1108. STARTUP FUNDING.

(a) *In General.*--For purposes of this title, the Secretary of the Treasury shall pay to the Appraisal Subcommittee a one-time payment of \$5,000,000 on the date of the enactment of this Act. Thereafter, expenses of the subcommittee shall be funded through the collection of registry fees from certain certified and licensed appraisers pursuant to section 1109 or, if required, pursuant to section 1122(b) of this title.

(b) *Additional Funds.*--Except as provided in section 1122(b) of this title, funds in addition to the funds provided under subsection (a) may be made available to the Appraisal Subcommittee only if authorized and appropriated by law.

SEC. 1109. ROSTER OF STATE CERTIFIED OR LICENSED APPRAISERS; AUTHORITY TO COLLECT AND TRANSMIT FEES.

(a) *In General.*--Each State with an appraiser certifying and licensing agency whose certifications and licenses comply with this title, shall--

(1) transmit to the Appraisal Subcommittee, no less than annually, a roster listing individuals who have received a State certification or license in accordance with this title; and

(2) collect from such individuals who perform or seek to perform appraisals in federally related transactions, an annual registry fee of not more than \$25, such fees to be transmitted by the State agencies to the Council on an annual basis. Subject to the approval of the Council, the Appraisal Subcommittee may adjust the dollar amount of registry fees, up to a maximum of \$50 per annum, as necessary to carry out its functions under this title.

(b) *Use of Amounts Appropriated or Collected.*--Amounts appropriated for or collected by the Appraisal Subcommittee under this section shall be used--

(1) to maintain a registry of individuals who are qualified and eligible to perform appraisals in connection with federally related transactions;

(2) to support its activities under this title;

(3) to reimburse the general fund of the Treasury for amounts appropriated to and expended by the Appraisal Subcommittee during the 24-month startup period following the date of the enactment of this title; and

(4) to make grants in such amounts as it deems appropriate to the Appraisal Foundation, to help defray those costs of the foundation relating to the activities of its Appraisal Standards and Appraiser Qualifications Boards.

SEC. 1110. FUNCTIONS OF THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES RELATING TO APPRAISAL STANDARDS.

Each Federal financial institutions regulatory agency and the Resolution Trust Corporation shall prescribe appropriate standards for the performance of real estate appraisals in connection with federally related transactions under the jurisdiction of each such agency or instrumentality. These rules shall require, at a minimum (1) that real estate appraisals be performed in accordance with generally accepted appraisal standards as evidenced by the appraisal standards promulgated by the Appraisal Standards Board of the Appraisal Foundation; and (2) that such appraisals shall be written appraisals. Each such agency or instrumentality may require compliance with additional standards if it makes a determination in writing that such additional standards are required in order to properly carry out its statutory responsibilities.

SEC. 1111. TIME FOR PROPOSAL AND ADOPTION OF STANDARDS.

Appraisal standards established under this title shall be proposed not later than 6 months and shall be adopted in final form and become effective not later than 12 months after the date of the enactment of this Act.

SEC. 1112. FUNCTIONS OF THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES RELATING TO APPRAISER QUALIFICATIONS.

(a) *In General.*--Each Federal financial institutions regulatory agency and the Resolution Trust Corporation shall prescribe, in accordance with sections 1113 and 1114 of this title, which categories of federally related transactions should be appraised by a State certified appraiser and which by a State licensed appraiser under this title.

(b) *Threshold Level.*--Each federal financial institutions regulatory agency and the Resolution Trust Corporation may establish a threshold level at or below which a certified or licensed appraiser is not required to perform appraisals in connection with federally related transactions, if such agency determines in writing that such threshold level does not represent a threat to the safety and soundness of financial institutions.

(c) *GAO study of appraisals in connection with real estate related financial transactions below the threshold level.*--

(1) Study required. At the end of the 18-month period, and the end of the 36-month period, beginning on the date of the enactment of this subsection [October 29, 1992], the Comptroller General of the United States shall conduct a study on the adequacy and quality of appraisals or evaluations conducted in connection with real estate related financial transactions below the threshold levels established under subsection (b), taking into account-

(A) the cost to any financial institution involved in any such transaction;

(B) the possibility of losses to the Bank Insurance Fund, the Savings Association Insurance Fund, or the National Credit Union Share Insurance Fund;

(C) the cost to any customer involved in any such transaction; and

(D) the effect on low-income housing.

(2) Reports to Congress and the appropriate federal financial institutions regulatory agencies. Upon completing each of the studies required under paragraph (1), the Comptroller General shall submit a report on the Comptroller General's findings and conclusions with respect to such study to the federal financial institutions regulatory agencies, the Committee on Banking, Finance and Urban Affairs of the House of Representatives, and the Committee on Banking, Housing, and Urban Affairs of the Senate, together with such recommendations for legislative or administrative action as the Comptroller General determines to be appropriate.

SEC. 1113. TRANSACTIONS REQUIRING THE SERVICES OF A STATE CERTIFIED APPRAISER.

In determining whether an appraisal in connection with a federally related transaction shall be performed by a State certified appraiser, an agency or instrumentality under this title shall consider whether transactions, either individually or collectively, are of sufficient financial or public policy importance to the United States that an individual who performs an appraisal in connection with such transactions should be a State certified appraiser, except that--

(1) a State certified appraiser shall be required for all federally related transactions having a value of \$1,000,000 or more; and

(2) 1-to-4 unit, single family residential appraisals may be performed by State licensed appraisers unless the size and complexity requires a State certified appraiser.

SEC. 1114. TRANSACTIONS REQUIRING THE SERVICES OF A STATE LICENSED APPRAISER.

All federally related transactions not requiring the services of a State certified appraiser shall be performed by either a State certified or licensed appraiser.

SEC. 1115. TIME FOR PROPOSAL AND ADOPTION OF RULES.

As appropriate, rules issued under sections 1113 and 1114 shall be proposed not later than 6 months and shall be effective upon adoption in final form not later than 12 months after the date of the enactment of this Act.

SEC. 1116. CERTIFICATION AND LICENSING REQUIREMENTS.

(a) *In General.*--For purposes of this title, the term "State certified real estate appraiser" means any individual who has satisfied the requirements for State certification in a State or territory whose criteria for certification as a real estate appraiser currently meets the minimum criteria for certification issued by the Appraiser Qualifications Board of the Appraisal Foundation.

(b) *Restriction.*--No individual shall be a State certified real estate appraiser under this section unless such individual has achieved a passing grade upon a suitable examination administered by a State or territory that is consistent with and equivalent to the Uniform State Certification Examination issued or endorsed by the Appraiser Qualifications Board of the Appraisal Foundation.

(c) *Definition.*--As used in this section, the term "State licensed appraiser" means an individual who has satisfied the requirements for State licensing in a State or territory.

(d) *Additional Qualification Criteria.*--Nothing in this title shall be construed to prevent any Federal agency or instrumentality under this title from establishing such additional qualification criteria as may be necessary or appropriate to carry out the statutory responsibilities of such department, agency, or instrumentality.

(e) *Authority of the Appraisal Subcommittee.*--The Appraisal Subcommittee shall not set qualifications or experience requirements for the States licensing real estate appraisers, including a de minimis standard. Recommendations of the subcommittee shall be nonbinding on the States.

SEC. 1117. ESTABLISHMENT OF STATE APPRAISER CERTIFYING AND LICENSING AGENCIES.

To assure the availability of State certified and licensed appraisers for the performance in a State of appraisals in federally related transactions and to assure effective supervision of the activities of certified and licensed appraisers, a State may establish a State appraiser certifying and licensing agency.

SEC. 1118. MONITORING OF STATE APPRAISER CERTIFYING AND LICENSING AGENCIES.

(a) *In General.*--The Appraisal Subcommittee shall monitor State appraiser certifying and licensing agencies for the purpose of determining whether a State agency's policies, practices, and procedures are consistent with this title. The Appraisal Subcommittee and all agencies, instrumentalities, and federally recognized entities under this title shall not recognize appraiser certifications and licenses from States whose appraisal policies, practices, or procedures are found to be inconsistent with this title.

(b) *Disapproval by Appraisal Subcommittee.*--The Federal financial institutions regulatory agencies, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Resolution Trust Corporation shall accept certifications and licenses awarded by a State appraiser certifying the licensing agency unless the Appraisal Subcommittee issues a written finding that--

(1) the State agency fails to recognize and enforce the standards, requirements, and procedures prescribed pursuant to this title;

2) the State agency is not granted authority by the State which is adequate to permit the agency to carry out its functions under this title; or

(3) decisions concerning appraisal standards, appraiser qualifications, and supervision of appraiser practices are not made in a manner that carries out the purposes of this title.

(c) *Rejection of State Certifications and Licenses.*--

(1) *Opportunity to be heard or correct conditions.*--Before refusing to recognize a State's appraiser certifications or licenses, the Appraisal Subcommittee shall provide that State's certifying and licensing agency a written notice of its intention not to recognize the State's certified or licensed appraisers and ample opportunity to provide rebuttal information or to correct the conditions causing the refusal.

(2) *Adoption of procedures.*--The Appraisal Subcommittee shall adopt written procedures for taking actions described in this section.

(3) *Judicial review.*--A decision of the subcommittee under this section shall be subject to judicial review.

SEC. 1119. RECOGNITION OF STATE CERTIFIED AND LICENSED APPRAISERS FOR PURPOSES OF THIS TITLE.

(a) *Effective Date for Use of Certified or Licensed Appraisers Only.*--

(1) *In General.*--Not later than December 31, 1992, all appraisals performed in connection with federally related transactions shall be performed only by individuals certified or licensed in accordance with the requirements of this title.

(2) *Extension of Effective Date.*--Subject to the approval of the Council, the Appraisal Subcommittee may extend, until December 31, 1991, the effective date for the use of certified or licensed appraisers if it makes a written finding that a State has made substantial progress in establishing a State certification and licensing system that appears to conform to the provisions of this title.

(b) *Temporary Waiver of Appraiser Certification or Licensing Requirements for State Having Scarcity of Qualified Appraisers.*--Subject to the approval of the Council, the Appraisal

Subcommittee may waive any requirement relating to certification or licensing of a person to perform appraisals under this title if the Appraisal Subcommittee or a State agency whose certifications and licenses are in compliance with this title, makes a written determination that there is a scarcity of certified or licensed appraisers to perform appraisals in connection with federally related transactions in a State or in any geographical political subdivision of a State, leading to significant delays in the performance of such appraisals. The waiver terminates when the Appraisal Subcommittee determines that such significant delays have been eliminated.

(c) *Reports to State Certifying and Licensing Agencies.*--The Appraisal Subcommittee, any other Federal agency or instrumentality, or any federally recognized entity shall report any action of a State certified or licensed appraiser that is contrary to the purposes of this title, to the appropriate State agency for a disposition of the subject of the referral. The State agency shall provide the Appraisal Subcommittee or the other Federal agency or instrumentality with a report on its disposition of the matter referred. Subsequent to such disposition, the subcommittee or the agency or instrumentality may take such further action, pursuant to written procedures, it deems necessary to carry out the purposes of this title.

SEC. 1120. VIOLATIONS IN OBTAINING AND PERFORMING APPRAISALS IN FEDERALLY RELATED TRANSACTIONS.

(a) *Violations.*--Except as authorized by the Appraisal Subcommittee in exercising its waiver authority pursuant to section 1119(b), it shall be a violation of this section--

(1) for a financial institution to seek, obtain, or give money or any other thing of value in exchange for the performance of an appraisal by a person who the institution knows is not a State certified or licensed appraiser in connection with a federally related transaction; and

(2) for the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Resolution Trust Corporation to knowingly contract for the performance of any appraisal by a person who is not a State certified or licensed appraiser in connection with a real estate related financial transaction defined in section 1121(5) to which such association or corporation is a party.

(b) *Penalties.*--A financial institution that violates subsection (a)(1) shall be subject to civil penalties under section 8(i)(2) of the Federal Deposit Insurance Act or section 206(k)(2) of the Federal Credit Union Act, as appropriate.

(c) *Proceeding.*--A proceeding with respect to a violation of this section shall be an administrative proceeding which may be conducted by a Federal financial institutions regulatory agency in accordance with the procedures set forth in subchapter II of chapter 5 of title 5, United States Code.

SEC. 1121. DEFINITIONS.

For purposes of this title:

(1) *State appraiser certifying and licensing agency.*--The term "State appraiser certifying and licensing agency" means a State agency established in compliance with this title.

(2) *Appraisal Subcommittee; subcommittee.*--The terms "Appraisal Subcommittee" and "subcommittee" mean the Appraisal Subcommittee of the Federal Financial Institutions Examination Council.

(3) *Council*.--The term "Council" means the Federal Financial Institutions Examinations Council.

(4) *Federally related transaction*.--The term "federally related transaction" means any real estate-related financial transaction which--

(A) a federal financial institutions regulatory agency or the Resolution Trust Corporation engages in, contracts for, or regulates; and

(B) requires the services of an appraiser.

(5) *Real estate related financial transaction*.--The term "real estate-related financial transaction" means any transaction involving--

(A) the sale, lease, purchase, investment in or exchange of real property, including interests in property, or the financing thereof;

(B) the refinancing of real property or interests in real property; and

(C) the use of real property or interests in property as security for a loan or investment, including mortgage-backed securities.

(6) *Federal financial institutions regulatory agencies*.--The term "Federal financial institutions regulatory agencies" means the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration.

(7) *Financial institution*.--The term "financial institution" means an insured depository institution as defined in section 3 of the Federal Deposit Insurance Act or an insured credit union as defined in section 101 of the Federal Credit Union Act.

(8) *Chairperson*.--The term "Chairperson" means the Chairperson of the Appraisal Subcommittee selected by the council.

(9) *Foundation*.--The terms "Appraisal Foundation" and "Foundation" means the Appraisal Foundation established on November 30, 1987, as a not for profit corporation under the laws of Illinois.

(10) *Written appraisal*.--The term "written appraisal" means a written statement used in connection with a federally related transaction that is independently and impartially prepared by a licensed or certified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by presentation and analysis of relevant market information.

SEC. 1122. MISCELLANEOUS PROVISIONS.

(a) *Temporary Practice*.--A State appraiser certifying or licensing agency shall recognize on a temporary basis the certification or license of an appraiser issued by another State if--

(1) the property to be appraised is part of a federally related transaction,

(2) the appraiser's business is of a temporary nature, and

(3) the appraiser registers with the appraiser certifying or licensing agency in the State of temporary practice.

(b) *Supplemental Funding.*--Funds available to the Federal financial institutions regulatory agencies may be made available to the Federal Financial Institutions Examination Council to support the council's functions under this title.

(c) *Prohibition Against Discrimination.*--Criteria established by the Federal financial institutions regulatory agencies, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Resolution Trust Corporation for appraiser qualifications in addition to State certification or licensing shall not exclude a certified or licensed appraiser for consideration for an assignment solely by virtue of membership or lack of membership in any particular appraisal organization.

(d) *Other Requirements.*--A corporation, partnership, or other business entity may provide appraisal services in connection with federally related transactions if such appraisal is prepared by individuals certified or licensed in accordance with the requirements of this title. An individual who is not a State certified or licensed appraiser may assist in the preparation of an appraisal if--

(1) the assistant is under the direct supervision of a licensed or certified individual; and

(2) the final appraisal document is approved and signed by an individual who is certified or licensed.

(e) *Studies.*--

(1) *Study.*--The Appraisal Subcommittee shall--

(A) conduct a study to determine whether real estate sales and financing information and data that is available to real estate appraisers in the States is sufficient to permit appraisers to properly estimate the values of properties in connection with federally related transactions; and

(B) study the feasibility and desirability of extending the provisions of this title to the function of personal property appraising and to personal property appraisers in connection with Federal financial and public policy interests.

(2) *Report.*--The Appraisal Subcommittee shall--

(A) report its findings to the Congress with respect to the study described in paragraph (1)(A) no later than 12 months after the date of the enactment of this title, and

(B) report its findings with respect to the study described in paragraph (1)(B) to Congress not later than 18 months after the date of the enactment of this title.

SEC. 1123. EMERGENCY EXCEPTIONS FOR DISASTER AREAS.

(a) *In General.*--Each Federal financial institutions regulatory agency may, by regulation or order, make exceptions to this title, for transactions involving institutions for which the agency is the primary Federal regulator with respect to real property located within a disaster area if the agency--

(1) makes the exception not later than 30 months after the date on which the President determines, pursuant to section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, that a major disaster exists in the area and

(2) determines that the exception--

(A) would facilitate recovery from the major disaster, and

(B) is consistent with safety and soundness.

(b) *3-Year Limit on Exceptions.*--Any exception made under this section shall expire not later than 3 years after the date of the determination referred to in subsection (a)(1).

(c) *Publication Required.*--Any Federal financial institutions regulatory agency shall publish in the Federal Register a statement that--

(1) describes any exception made under this section; and

(2) explains how the exception--

(A) would facilitate recovery from the major disaster, and

(B) is consistent with safety and soundness.

(d) *Disaster Area Defined.*--For the purposes of this section, the term "disaster area" means an area in which the President, pursuant to section 401 of the Robert T. Stafford Disaster Relief Act, has determined that a major disaster exists.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT REFORM ACT OF 1989 SEC. 142. FHA OPERATIONS.

* * * *

(e) *Appraisal Standards.*

(1) The Secretary shall prescribe standards for the appraisal of all property to be insured by the Federal Housing Administration. Such appraisals shall be performed in accordance with uniform standards, by individuals who have demonstrated competence and whose professional conduct is subject to effective supervision. These standards shall require at a minimum -

(A) that the appraisals of properties to be insured by the Federal Housing Administration shall be performed in accordance with generally accepted appraisal standards, such as the appraisal standards promulgated by the Appraisal Foundation a not-for-profit corporation established on November 30, 1987 under the laws of Illinois; and

(B) that each appraisal is a written statement used in connection with a real estate transaction that is independently and impartially prepared by a licensed or certified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by presentation and analysis of relevant market information.

(2) The Appraisal Subcommittee of the Federal Financial Institutions Examination Council shall include the Secretary or his designee.

Appendix B

Policy Statements Regarding State Certification and Licensing of Real Estate Appraisers

**APPRAISAL SUBCOMMITTEE POLICY STATEMENTS REGARDING
STATE CERTIFICATION AND LICENSING OF REAL ESTATE APPRAISERS**

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Introduction

Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), entitled the "Real Estate Appraisal Reform Amendments," established the Appraisal Subcommittee of the Federal Financial Institutions Examination Council ("ASC"). The ASC consists of representatives appointed by the heads of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the National Credit Union Administration ("Federal financial institutions regulatory agencies" or "Agencies") and the Department of Housing and Urban Development.

The ASC, among other things, is charged with monitoring the certification and licensing programs for real estate appraisers in each State to determine whether the State's policies, practices and procedures are consistent with Title XI and enforcing the State's compliance with the requirements of Title XI. This statute also requires the ASC to maintain a national registry of State licensed and certified appraisers, and to ensure that each State appraiser certifying and licensing agency ("State agency") transmits to the ASC a roster of State certified and licensed appraisers who are eligible to perform appraisals in federally related transactions, along with an annual registry fee. States may establish and maintain procedures for certifying, licensing, supervising and disciplining individuals who are qualified to perform real estate appraisals in connection with Federal financial and public policy interests, including a code of professional responsibility as evidenced by the Uniform Standards of Professional Appraisal Practice ("USPAP"), as adopted by the Appraisal Standards Board of the Appraisal Foundation ("ASB"). Title XI, as well as other Federal statutes and regulations¹ requiring the use of State

¹Two Federal statutes, Title XI and 12 U.S.C. 1708(e)(B), currently require the use of State certified or licensed real estate appraisers, as do certain Federal regulations and policies such as the Department of Transportation's regulations implementing the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, Office of Management and

certified or licensed appraisers, necessarily relies on the States to perform their real estate appraiser related duties in a responsible manner.

In exercising its oversight responsibilities, the ASC reviews each State's overall appraiser regulatory program to determine compliance with Title XI. All of a State's requirements and policies need not be specifically set forth in statutes, but may be established by regulation, procedure or practice. Conversely, an otherwise adequate set of statutes or regulations can be undermined by inadequate implementation. In general, the ASC considers each State appraiser regulatory program to be valid unless the ASC formally rejects or disapproves the program using the procedures in 12 U.S.C. 3347 and 12 CFR part 1102, subpart B.

In general, State agencies should take appropriate steps to ensure that each person seeking to qualify as a State certified or licensed appraiser has demonstrated his or her competency. To demonstrate competency, the ASC believes that States should ensure that appraisers meet appropriate education, testing and experience requirements. Moreover, State agencies should ensure that State certified or licensed appraisers continue to perform their assignments in a competent and ethical manner.

Federal or State statutes or regulations may prescribe which transactions must have an appraisal performed by a State certified or licensed appraiser. For federally regulated financial institutions, Title XI mandates that State certified real estate appraisers perform all appraisals in connection with federally related transactions over \$1 million and complex one-to-four family residential properties.

Purpose

Budget Circular No. A-129 and Bulletin No. 92-06, and the Uniform Standards for Federal Land Acquisitions.

The ASC is issuing these Policy Statements to assist the States in the continuing development and maintenance of appropriate organizational and regulatory structures for certifying, licensing and supervising real estate appraisers. These Statements reflect the general framework that the ASC is using to review a State's program for compliance with Title XI. These Statements: (1) supersede the ASC's "Revised Guidelines" which were adopted on May 29, 1991, and published at 56 FR 26091 (June 6, 1991)²; (2) incorporate ASC advisories and opinions issued after the ASC's issuance of the Revised Guidelines; and (3) include new guidance on several issues.

²Concurrently with the adoption of these Policy Statements, the ASC voted to withdraw the Revised Guidelines and to publish a notice to that effect in the *Federal Register*.

Statement 1: State Regulatory Structure and Independence of Functions

The ASC does not impose any particular organizational structure upon the States. It is recognized that each State may have legal, fiscal, regulatory or other valid constraints that determine the structure and organization of its State agency. States, however, should adopt and maintain an organizational structure for appraiser certification, licensing and supervision that avoids conflicts of interest or the appearance of such conflicts. Ideally, States should maintain totally independent State agencies answerable only to the governor or a cabinet level official who has no regulatory responsibility for real estate licensing, promotion, development or financing functions ("realty related activities"). A State, however, may choose to locate its State agency within an existing regulatory body. Any State with its appraiser regulatory function in a department that regulates realty related activities must ensure that adequate safeguards exist to protect the independence of the appraiser regulatory function.

A State agency may be headed by a board, commission or individual. The organizational structure should provide maximum insulation for the State agency from the influence of any industry or organization whose members have a direct or indirect financial interest in the outcome of the agency's decisions.

Persons appointing officials to a State agency should not be associated or affiliated with an affected industry, *i.e.*, they should not have a direct or indirect financial interest in realty related activities. A State agency head, appointed by the governor and confirmed by the State legislature, would generally be considered independent.

The ASC believes that, as a matter of sound public policy, State appraiser boards or commissions should adequately represent the broad public interest by providing the public with a meaningful opportunity to participate in the agency's decision making process. A State agency should not be dominated in any way by any industry or profession and its board or commission should have one or more qualified public members. The ASC believes that domination of the State agency by representatives of affected industries would be inappropriate and inconsistent with Title XI. The ASC, however, recognizes that members of the appraisal industry should be significantly represented on the appraiser board or commission and believes that a board or commission may contain a majority of appraisers and still adequately represent the broad public interest. A State agency, board or commission,

however, should reflect the interests of the State's entire community of appraisers and the general public and not the interests of any professional appraiser organization.

An individual heading a State agency should not be actively engaged in the appraisal business or in any realty related activity during his or her term of office or employment and for a reasonable period thereafter.

The ASC strongly urges that State agency decisions, especially those relating to license or certificate issuance, revocation and disciplinary actions, not be made by State officials who also are responsible for realty related activities. State officials should accept and implement the actions of the appraiser board unless they are inconsistent with the public interest and trust. Additionally, such State agency decisions should be final administrative actions subject only to appropriate judicial review.

Statement 2: Appraiser Classifications

Title XI established, and the ASC has recognized, two designations or titles for appraisers: "State licensed" and "State certified." The Appraiser Qualifications Board of the Appraisal Foundation ("AQB") has approved a third designation, "certified residential appraiser," which the ASC has also recognized. Most of the States have adopted the certified residential appraiser classification. The ASC strongly urges States to use the federally recognized designations or titles, *i.e.*, State certified general appraiser, State certified residential appraiser and State licensed appraiser. The use of other designations or titles increases the likelihood of confusion among users and could result in the employment of appraisers who do not have the required designation to perform the appraisal for which they are engaged. Use of other designations may complicate and confuse State temporary practice and reciprocity arrangements. States that choose to use other designations or titles should ensure that they can be easily distinguished from the Federal designations.

States may also experience problems if their statutes or regulations specify the types of real estate transactions for which State certified and licensed appraisers may conduct appraisals. In general, for federally regulated financial institutions, these determinations rest with the Federal financial institutions regulatory agencies as set forth under 12 U.S.C. 3341. These Agencies have issued regulations prescribing the types of transactions for which certified or licensed appraisers are required. State statutes and regulations should defer to the Agencies' regulations in this area.

Some States have specifically included in their statutes or regulations restatements of the requirements set forth in the regulations issued by the Agencies relating to such matters as the value of transactions requiring certified or licensed appraisers, the specific skills of the appraisers and the complexity of appraisal assignments. These Federal requirements will probably be changed from time to time, thus creating conflicts with State requirements unless affected States act promptly to make conforming amendments to their statutes or regulations. The best way for States to avoid such problems is not to include any restatement of the requirements of the Agencies' regulations in State statutes or regulations.

Additional appraiser qualification requirements may be imposed by any State or Federal agency or other user of appraisal services if they consider

such qualifications necessary to carry out their responsibilities under Federal statutes and regulations.

The ASC will continue to review each State's education requirements to ensure, for licensing, that they are meaningful both as to the breadth of subject matter and length of required study, and, for certification, that they at a minimum conform to the requirements of the AQB.

A. State Certified General Appraiser

Title XI generally requires a State certified general appraiser to be a person who: (1) meets at least the minimum AQB criteria for "Certified General Real Property Appraiser"; and (2) passes a State administered examination issued or endorsed by the AQB. The AQB criteria for initial certification include 165 classroom hours in courses related to specified real estate appraisal matters and 2,000 hours of appraisal experience (with at least 50 percent in non-residential appraising). For recertification, an appraiser needs to accumulate at least ten classroom hours of continuing education course work for each year during the period preceding certification renewal. Continuing education hours can be accumulated at any time before the certification renewal date.

B. State Certified Residential Appraiser

While Title XI does not specifically mention the State Certified Residential Appraiser designation, it was adopted by the AQB and the ASC recognized it. A State certified residential appraiser is a person who: (1) meets at least the minimum AQB criteria for "Certified Residential Real Property Appraiser"; and (2) passes a State administered examination issued or endorsed by the AQB. The current AQB criteria for this classification include 105 classroom hours of real estate appraisal education courses and 2,000 hours of appraisal experience. For recertification, an appraiser needs to accumulate at least ten classroom hours of continuing education for each year during the period preceding certification renewal. Beginning on January 4, 1994, the AQB education requirement will be 120 classroom hours.

C. State Licensed Appraiser

Title XI does not specifically set the qualifications requirements for licensing appraisers. Nor does it 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, it should be independently reviewed and validated by a qualified source.

The ASC will not object if States adopt the AQB's two-year experience recommendation for the "Licensed Real Property Appraiser", *i.e.*, a minimum of 2,000 hours. The ASC, however, recognizes that other meaningful ways exist for the States to ensure that persons of demonstrated competency qualify for State licensing by utilizing 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 2,000 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 provisional license to an individual who has the required education and has passed an appropriate examination, but requires that the appraiser obtain the experience [and training] necessary to demonstrate his or her competence within a limited period of time.

The ASC believes that the time allowed to achieve the necessary hours of experience should not be limited to a set time frame. Appraisal experience may include, but need not be limited to, performing or assisting in fee and staff appraisals, *ad valorem* tax appraisals, mass appraisals, review appraisals, appraisal analyses, real estate counseling, highest and best use analyses and feasibility analyses or studies or teaching appraisal courses. A State may choose to accept real estate related experience, *e.g.*, work as a real estate

lending officer or a real estate broker, for some or all of its experience requirement if such experience actually entailed the performance or professional review of real estate appraisals.

The ASC, likewise, acknowledges that the AQB's recommended education criterion for a "Licensed Real Property Appraiser" reflects a meaningful level of education. This standard currently is 75 classroom hours in specific subjects listed in the published criteria. As discussed above, a State may establish other appropriate education requirements, so long as they are consistent with Title XI.

The ASC believes that it is important for States to provide for the continuing education of appraisers as part of their licensing requirement. In that regard, the AQB's continuing education recommendation for a licensed real property appraiser, which is ten classroom hours for each year of the period preceding the renewal of the license, is reasonable.

During the initial period of implementing Title XI, the ASC accepted the concept of transitional licensing to allow practicing appraisers to continue in the profession even though they did not meet all of the qualifications for licensing. Transitional licensing enabled persons to become licensed when they passed the appropriate test but lacked either the educational or the experience requirements adopted by the State. States generally have required: (1) transitionally-licensed appraisers to satisfy the missing requirements within no more than two years after being tested and transitionally licensed by the State; and (2) each transitional license to indicate clearly its transitional nature, period of validity and a non-extendable termination date.³

The ASC believes that transitional licensing, as it has existed, is no longer necessary because practicing appraisers should have had ample time and opportunity to meet the States' requirements for experience and education. Therefore, the ASC believes that there is no longer a need for States to award transitional licenses or to extend or renew previously issued transitional licenses.

³Title XI requires that the States establish certification criteria that, at a minimum, are consistent with the AQB's certification qualifications. These qualifications require persons to complete all education requirements before they can take a certification examination. Transitional or provisional certification is not consistent with the AQB's requirements.

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 (such as provisional licensing programs). Indeed, these programs very well may incorporate some of the features of transitional licensing.

Statement 3: Appraisal Standards

Real estate appraisals generally must be performed in accordance with generally accepted appraisal standards as evidenced by the appraisal standards promulgated by the ASB, *i.e.*, USPAP. Each State, by statute or by regulation, has incorporated USPAP into State law. State agencies should take steps to ensure that State statutes or regulations automatically incorporate the latest version of USPAP, including related ASB Statements, Interpretations, Advisory Opinions and other ASB formal guidance on the meaning and application of USPAP. Some States have incorporated dated or limited versions of USPAP into their statutes or regulations. This can cause confusion and conflict for certified and licensed appraisers, who must comply with professional standards adopted by the ASB that are different than those adopted by their State. State agencies should apply and enforce identical provisions of USPAP. Therefore, the ASC urges all States to incorporate USPAP as the minimum appraisal standard by general reference into their laws or regulations.

Statement 4: Written Appraisal Reports

Title XI specifically mandates that all appraisals performed in connection with federally related transactions be in written form. The written appraisal must adequately explain the certified or licensed appraiser's opinion of the property's value as of a specific date with a description of the property and presentation of the relevant market information with supporting analysis. This requirement has been incorporated into other Federal statutes and regulations.

Statement 5: Temporary Practice

Title XI requires a State agency to recognize on a temporary basis the certification or license of an appraiser from another State provided: (1) the property to be appraised is part of a federally related transaction; (2) the appraiser's business is of a temporary nature; and (3) the appraiser registers with the State appraiser regulatory agency in the State of temporary practice. Thus, a certified or licensed appraiser from State A, who has an assignment concerning a federally related transaction in State B, has a statutory right to enter State B, register with the State agency in State B and perform the assignment. Title XI does not require State B to offer temporary practice to persons who are not certified or licensed appraisers, including appraiser assistants not under the direct supervision of an appraiser certified or licensed in State A. An out-of-State certified or licensed appraiser should register for temporary practice before beginning to perform an appraisal assignment in connection with a federally related transaction.

States may not require temporary practitioners to obtain a certification or license in the State of temporary practice. Instead, the State must recognize the certificate or license issued by the individual's State of permanent certification or licensing. A State agency: (1) must allow temporary practice even though the State of permanent certification or licensing has differing requirements for certification or licensing,⁴ unless the latter State's certifications or licenses are not recognized by the ASC under 12 U.S.C. 3347; (2) should not put in place time consuming or complicated temporary practice registration procedures; and (3) should not have excessive temporary practice fees. The ASC strongly urges State agencies not to impose any practices or requirements that operate as an unreasonable impediment to temporary practice.

The State agency should process temporary practice registrations in an efficient and effective manner. An acceptable model for temporary practice procedures would include: (1) a nominal per assignment fee; (2) proof of a valid license or certificate; and (3) the completion of a reasonable temporary

⁴The lender is required to select and determine whether the appraiser is qualified for the assignment. If the appraiser is qualified in his or her home State to perform the assignment, the lender should be able to assume that the appraiser is qualified to perform the appraisal under temporary practice provisions.

practice registration form.⁵ The State agency should promptly process the form.

An out-of-State certified or licensed appraiser must comply with the host State's real estate appraisal statutes and regulations. Each appraiser who receives temporary practice registration is subject to the State's full regulatory jurisdiction and is governed by the State's statutes and regulations respecting appraiser certification or licensing. However, the out-of-State appraiser should be treated like any other appraiser within the State who wishes to perform an appraisal in a federally related transaction.

The State agency in the State of temporary practice needs to follow up on any complaints regarding the temporary practicing appraiser's appraisal activities within the State. If appropriate, the host State agency should commence a disciplinary proceeding against the appraiser for violations occurring in its jurisdiction and should not just forward the complaint for follow up to the State agency in the appraiser's home State. The ASC expects the home State agency to honor the findings and judgment of the State agency in the State of temporary practice and take appropriate disciplinary action against the appraiser.

The ASC believes that "temporary" is best measured by one or more specific appraisal assignments and not by a fixed time period or number of properties to be appraised. For temporary practice purposes, the ASC regards the term "assignment" as meaning one or more real estate appraisals and

⁵The form should be designed to identify the appraiser and the assignment. In addition, the form should request the appraiser's signature affirming that he or she currently is not subject to any appraiser certification or licensure disciplinary proceeding in any State, and that his or her license or certificate is fully valid and in good standing.

written appraisal reports which are covered by a contract to provide an appraisal.

A State agency may establish by statute or regulation a policy that places reasonable limits on the number of times an out-of-State certified or licensed appraiser may exercise his or her temporary practice rights in a given year. If such an overall policy is not established, a State agency may choose not to honor an out-of-State certified or licensed appraiser's temporary practice rights if it has made a determination that the appraiser is abusing his or her temporary practice rights and is regularly engaging in real estate appraisal within the State.

Finally, some State agencies have sought to require that an appraiser register for temporary practice if the appraiser is certified or licensed in another State, performs a technical review of an appraisal in that other State and changes, or is authorized to change, a value in the appraisal. The ASC, however, has concluded that for federally related transactions the review appraiser need not register for temporary practice or otherwise be subjected to the regulatory jurisdiction of the State agency in which the appraisal was performed, so long as the review appraiser does not perform the technical review in the State within which the property is located.

Statement 6: Reciprocity

Many interested parties have commented that reciprocity is at least as critical as temporary practice. While temporary practice is specifically required by Title XI, reciprocity is not and involves a permanent recognition of another State's certified or licensed appraisers. Under reciprocal arrangements, an appraiser who is certified or licensed in State A and is also reciprocally certified or licensed in State B must comply with both States' appraiser laws, including those requiring the payment of certification, licensing and Federal registry fees and continuing education. Indeed, the appraiser for all intents and purposes is treated as if he or she were separately certified or licensed in each of the States.

The ASC suggests that States consider implementing, at a minimum, the following features in their reciprocity policies:

- A simple application;
- No reexamination;
- No additional review of an applicant's education or experience;
- Reciprocal licensing or certification fees similar in amount to the corresponding fees for "home" State appraisers; and
- The collection and forwarding to the ASC of the National Registry fee for each reciprocally licensed or certified appraiser.

Methods for providing reciprocity vary from State to State. Some States may implement formal agreements with other States, whereby a certified or licensed appraiser in good standing from one State applies for, and is granted, certification or licensing in the other States upon submission to the other States of a copy of his or her credentials, a statement of good standing, a consent for service of suit and the payment of appropriate fees. Other States, without a formal agreement, but with similar documentation requirements, may grant the requested certificate or license upon the payment of the second State's fee. Still other States may accept the examination of other States, but require the remainder of the application to be completed by the applicant and reviewed by the State agency. Finally, States, by agreement, may allow their certified or licensed appraisers who are in good standing to practice freely within these States without any additional State qualifications or procedures. Appraisers certified or licensed in one State would not be required to apply for reciprocal certification or licensing in the other State or States and pay

related certification or licensing fees. In general, the basic requirements for appraisal practice within the "free practice" area would be showing a valid certificate or license and being competent to perform the assignment under USPAP and Federal and State statutes and regulations. In addition, as an exception to Statement 8 below, States following this "drivers license" approach to reciprocity would not need to collect and forward to the ASC National Registry information and fees concerning reciprocally certified or licensed appraisers.

Reciprocity's main benefit is that appraisers who qualify for certification or licensing in one State may freely cross into another State without needing to "register" for each appraisal assignment in the other State. Therefore, a duly certified or licensed appraiser in one State can be recognized as such in each of the other States in which he or she is licensed or certified by reciprocity.

The ASC endorses reciprocity and urges the States to establish permanent reciprocity arrangements promptly to address the needs of certified or licensed appraisers who practice on a non-temporary, multistate basis.

Statement 7: Prohibition Against Discrimination

State agencies should be aware that Title XI and the Agencies' regulations prohibit federally regulated financial institutions from excluding appraisers from consideration for an assignment solely by virtue of their membership, or lack of membership, in any appraisal organization. Federally regulated financial institutions should review the qualifications of appraisers to ensure that they are qualified for the assignment for which they are being considered. It is unacceptable to assume that an appraiser is qualified solely due to membership in, or designation from, an appraisal organization, or the lack thereof. The Agencies have determined that financial institutions' appraisal policies should not favor appraisers from one or more organizations or exclude individuals based on their lack of such membership. If a State agency learns that a certified or licensed appraiser allegedly has been a victim of such discrimination, the State agency should inform the Agency which has regulatory authority over the involved financial institution.

The ASC has determined that such discrimination also is inappropriate in the establishment and administration of a State's certification and licensing system. The ASC urges States to adopt legislation, regulations or other procedures to prohibit such discriminatory practices.

In addition, State agencies should avoid discriminatory practices regarding appraiser educational course providers. Some State agencies inappropriately: (1) have charged a course review fee to private course providers while not charging such a fee to certain professional appraiser organizations; (2) have delayed approval of private school appraisal courses while rapidly approving those of professional appraiser organizations; and (3) have forced non-affiliated proprietary schools to maintain and use fixed school room locations, while certain professional appraisal organizations have been allowed to teach courses at non-fixed commercial sites, such as hotels, motels and office locations. State agencies should review their internal procedures and take steps to ensure that all educational providers are afforded equal treatment in all respects, including course review fees, timeliness of review and course location requirements.

Statement 8: National Registry of State Certified and Licensed Appraisers

A. General Roster and Registry Fee Requirements

Title XI requires the States to transmit to the ASC no less than annually: (1) a roster listing individuals who have received a State certification or license to perform appraisals, and (2) a \$25 registry fee from individuals who have received certification or licensing. Fee and roster requirements apply to all individuals who receive State certifications or licenses originally or by reciprocity, whether or not the individuals in fact are performing, or plan to perform, appraisals in federally related transactions. If an appraiser is certified or licensed in more than one State, the appraiser is required to be on each State's roster of certified or licensed appraisers and a registry fee is due from each State in which the appraiser is certified or licensed. Only appraisers on the National Registry are qualified to perform appraisals in connection with federally related transactions.

B. Description of National Registry

The ASC has provided the States with detailed specifications relative to the data elements which comprise the Registry and related accounting procedures. States should use systems for data input and maintenance that recognize specifications of the ASC system to ensure system compatibility.

To assist the States in recording and submitting data efficiently and cost effectively, the ASC has developed a personal computer software package. It is contained on diskettes and is provided at no charge. The Social Security Number of individual appraisers is not a data element. The ASC creates a unique identifier for each appraiser and protects each appraiser's privacy rights.

C. Registry Fee Policies

Each State must pay the ASC a National Registry fee on an annual basis for each State certified or State licensed appraiser listed on the National Registry. The annual fee for each certified or licensed appraiser is \$25. Checks should be made payable to the "Appraisal Subcommittee." Fees will not be prorated or refunds granted for partial year registrations. For example, the fee for adding a name to the Registry in February is \$25, and, for adding a name in November, remains \$25. Each of these appraisers then would be required

to renew his or her listing on the National Registry one year later, *i.e.*, in February and November, as the case may be. States must submit the required fee with the name of a State certified or State licensed appraiser to the ASC before the name can be entered into the Registry. Without the required fee, the name will not be entered, and the individual will not be eligible to perform appraisals in federally related transactions. If a State issues multiple-year certifications and licenses and collects multiple-year fees, the State should submit to the ASC the total amount of the multiple year National Registry fees.

The ASC will consider an appraiser to be inactive if his or her certificate or license renewal fee is not received with the State's National Registry update report for the month in which the renewal is due. When in an inactive status, appraisers may not perform appraisals in connection with federally related transactions, and the appraiser's name will be dropped from the National Registry. The ASC will change an appraiser from inactive to active status and reinstate his or her name on the Registry only upon its receipt of the renewal fee and appropriate renewal information from the State agency.

D. Public Availability of Registry Data

The releasable portions of National Registry information can be obtained through the National Technical Information Service ("NTIS"). Personal information about an individual appraiser is protected by the Privacy Act, 5 U.S.C. 552a, and the ASC does not make it available to NTIS.

Subscriptions to Registry updates are available through NTIS, as are record sorts by factors such as State and zip code. When requesting Registry data, refer to it by its NTIS catalogue name: *The Real Estate Appraisers Registry*. Additional information about the Registry data base can be secured by writing to the following address:

U. S. Department of Commerce
National Technical Information Service
Room 301-F
5285 Port Royal Road
Springfield, VA 22161
Telephone: (703) 487-4812
Fax: (703) 321-8547

Requests for information on a particular appraiser or group of appraisers can best be handled by the State agency that issued the certificate(s) or license(s).

To ensure the accuracy and integrity of the National Registry, State agencies should designate a State agency officer or employee who will serve as the State agency's Registry contact official. The State agency should advise the ASC in writing regarding the selected designee and should ensure that the authorization is kept current. The ASC will accept inquiries and information relating to National Registry data from this authorized individual only.

Access to the data contained in the National Registry is generally limited to Registry contact officials and duly authorized officers and employees of the Agencies and the ASC. Other persons should request information primarily from NTIS and/or the particular State agency issuing the certification or license. The ASC, however, will directly provide releasable National Registry information to persons upon their filing of a written request under the Freedom of Information Act, 5 U.S.C. 552, and the ASC's related rules in 12 CFR part 1102, subpart D (1993).

Statement 9: Information Sharing

The ASC believes that the routine exchange of certain information among lenders, State agencies and the ASC is essential to meeting the goals of Title XI.

A. National Registry Data

It is critical for State agencies to report expeditiously to the ASC the name of each appraiser whose license or certification has been suspended, revoked or against whom disciplinary action in connection with appraisal work is pending. Knowledge of such action should be communicated to the ASC as quickly as possible by the Registry contact official. Additionally, the information should be included on the State agency's regular National Registry update. ASC staff will identify other States in which the affected appraiser is certified or licensed and will communicate the necessary information to the other States' Registry contact officials, as necessary.

B. Information Pertaining to Appraiser Conduct and Practices

1. State Agency/Lender Communications

Title XI requires "any federally recognized entity," *e.g.*, a federally regulated institution, to report any action of a State certified or licensed appraiser that is contrary to the purposes of Title XI to the appropriate State agency for disposition. In turn, the State agency shall provide the ASC with a report regarding the disposition of such a matter.

The ASC believes that full implementation of this Title XI requirement is vital to the integrity of the system of State appraiser regulation. Prompt reporting by regulated institutions to the ASC should enable State agencies to investigate appraiser actions and should help to ensure that a resulting suspension or revocation of an appraiser's certificate or license will be communicated promptly to the ASC. At that point, the ASC will remove the appraiser's name from the National Registry, thereby protecting against the appraiser being available to perform appraisals for federally related transactions or for other transactions requiring the use of State certified or licensed appraisers. As part of its State agency monitoring process, the ASC will evaluate the effectiveness with which each State agency follows up complaints from financial institutions and other persons who report instances of appraiser incompetence or unethical behavior.

2. Communications Among State Agencies

Title XI contemplates the reasonably free movement of certified and licensed appraisers across State lines. This freedom of movement assumes, however, that certified and licensed appraisers are, in all cases, held accountable and responsible for their actions while performing appraisal activities. To ensure this accountability, State agencies need to establish routine ways to communicate with each other regarding matters of mutual interest, including the activities and status of persons who are certified or licensed in multiple States.

C. ASC Information "Clearing House" Operations

To facilitate the development of reciprocity among the States and the creation of State appraiser trainee/apprentice/intern programs, the ASC is developing a database of information that will be available to State agencies outlining each State's reciprocity requirements and interstate agreements as well as the features of existing appraiser trainee/apprentice/intern programs. The ASC is urging: (1) each State to maintain with the ASC a listing of all reciprocity agreements with other States (together with copies of such agreements), and (2) each State with a trainee/apprentice/intern program to maintain with the ASC a current summary of the program's requirements and features.

Statement 10: Enforcement*A. The Scope of State Agency Enforcement Programs*

In the ASC's view, Title XI intends that States supervise all of the activities and practices of persons who are certified or licensed to perform real estate appraisals in connection with all real estate appraisals involving real estate related financial transactions, and not just federally related transactions. The Federal agencies and all employers of appraisers must rely on the States to effectively regulate, supervise and discipline their certified and licensed appraisers -- in other words, to assure their professional competence. Accordingly, a State agency with knowledge of inappropriate behavior by a certified or licensed appraiser committed in connection with an appraisal of a non-federally related transaction should take appropriate action to investigate that behavior and to discipline the appraiser.

As noted, Federal statutes and regulations require the use of State certified or licensed appraisers in certain real estate transactions. A few State statutes, however, do not require the use of certified and licensed appraisers in those circumstances. The ASC recommends that State statutes or regulations authorize the State agency or another appropriate State authority to take action, as necessary, against an uncertified or unlicensed person who performs an appraisal for which a State certified or licensed appraiser is required under Federal statute or regulation. The ASC believes that, to preserve the integrity of the system for regulating the appraisal process, States should have sufficient legal tools, *e.g.*, a State law prohibiting a person from misrepresenting his or her professional status and authority, to take such actions.

B. Audit of Experience and Education Submissions

While the ASC has no preference for any specific methodology, State agencies, at a minimum, should have a reliable means of validating both education and experience credit claimed for certification or licensing. The ASC believes the lack of routine verification procedures is both an invitation to potential fraud and a threat to the integrity of a State's appraiser regulatory program.

C. Exemptions

Title XI and other Federal statutes and regulations specifically require the use of only State certified or licensed appraisers in connection with the

appraisal of certain real estate-related financial transactions. A State may not exempt any individual or group of individuals from meeting the State's certification or licensing requirements if the individual or group member performs an appraisal where Federal statutes and regulations require the use of a certified or licensed appraiser. For example, an individual who has been exempted by the State from its appraiser certification or licensing requirements because he or she is an officer, director, employee or agent of a federally regulated bank, thrift or credit union would not be permitted to perform an appraisal in connection with a federally related transaction. States with exemption provisions should take steps to ensure that the provisions are not being used or interpreted to avoid the use of certified or licensed appraisers in transactions governed by Federal law.

D. Supervising Uncertified and Unlicensed Appraiser Assistants

Title XI provides that an individual who is not a State certified or licensed appraiser may assist in the preparation of an appraisal if the assistant is under the direct supervision of a licensed or certified appraiser and the final appraisal is approved and signed by that appraiser. The ASC believes that this provision should not be used to legitimize situations where one or more uncertified or unlicensed persons are not actively and directly supervised by a certified or licensed appraiser during the preparation of the significant aspects of the appraisal process, and the certified or licensed appraiser does not substantively review the appraisal in accordance with USPAP's requirements. The ASC believes that any cursory review should not qualify as direct supervision and that such activities would violate the intent and purposes of Title XI. The ASC, therefore, urges State agencies to ensure that their appraiser regulatory programs can identify situations where direct supervision is not present and to take appropriate steps to remedy them.

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Appendix C

**APPRAISAL SUBCOMMITTEE OF THE
FEDERAL FINANCIAL INSTITUTIONS
EXAMINATION COUNCIL**

FINANCIAL STATEMENTS

**as of and for the year ended
SEPTEMBER 30, 1992**



**APPRAISAL SUBCOMMITTEE OF THE
FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**

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I	Report of Independent Accountants and Financial Statements
II	Report of Independent Accountants on Internal Controls
III	Report of Independent Accountants on Compliance

Price Waterhouse



Report of Independent Accountants

The Appraisal Subcommittee of the
Federal Financial Institutions Examination Council

We have audited the accompanying Statement of Financial Position of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council (Appraisal Subcommittee) as of September 30, 1992, and the related Statements of Operations and of Cash Flows for the year then ended. These financial statements are the responsibility of the Appraisal Subcommittee's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appraisal Subcommittee at September 30, 1992, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Price Waterhouse

June 30, 1993

**APPRAISAL SUBCOMMITTEE
OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Financial Position
As of September 30, 1992**

ASSETS

Fund Balances with Treasury and Cash	
Fund Balances with Treasury (Note 2)	\$ 2,469,174
Cash (Note 2)	1,206,503
Subtotal, Fund Balances with Treasury and Cash	<u>3,675,677</u>
Property and Equipment (Note 3)	116,852
Accumulated Depreciation	<u>(33,307)</u>
Total Assets	<u>\$ 3,759,222</u>

LIABILITIES AND EQUITY

Funded liabilities	
Non-Federal Liabilities	
Unearned Revenue	\$ 428,200
Accrued Accounts Payable	144,139
Accrued Payroll and Benefits	17,969
Accrued Travel Payable	2,975
Subtotal, Non-Federal Liabilities	<u>593,283</u>
Federal Liabilities	
Expended Borrowings from Treasury (Note 4)	2,530,826
Unexpended Borrowings from Treasury (Note 4)	2,469,174
Subtotal, Federal Liabilities	<u>5,000,000</u>
Total Funded Liabilities	<u>5,593,283</u>
Unfunded Liabilities	
Accrued Annual Leave (Note 2)	32,607
Total Unfunded Liabilities	<u>32,607</u>
Total Liabilities	5,625,890
Net Position	<u>(1,866,668)</u>
Total Liabilities and Net Position	<u>\$ 3,759,222</u>

The accompanying notes are an integral part of these statements

**APPRAISAL SUBCOMMITTEE
OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**
Statement of Operations and Changes in Net Position
Year ended September 30, 1992

REVENUE

Revenue from Goods Sold/Services Provided	
Appraiser Fees (Note 2)	\$ 768,000
Other	30
	<hr/>
Total Revenue	768,030
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EXPENSES

Operating Expenses	
Personnel Compensation and Benefits (Note 5)	578,636
Rent, Communications, and Utilities	138,950
Contracted Services	127,182
Travel and Transportation	23,495
Printing and Reproduction	17,895
Depreciation and Amortization	22,521
Supplies and Materials	13,296
Non-Capitalized Office Equipment (Note 4)	4,537
	<hr/>
Total Operating Expenses	926,512
Appraisal Foundation Grant (Note 6)	472,066
	<hr/>
Total Expenses	1,398,578
	<hr/>
Excess/(Shortage) of Revenue and Financing Sources over Funded Expenses	(630,548)
Gain on Sale of Fixed Assets	9,794
Net Position, Beginning Balance	<hr/> (1,245,914)
Net Position, Ending Balance	<hr/> <u>\$ (1,866,668)</u>

The accompanying notes are an integral part of these statements

**APPRAISAL SUBCOMMITTEE
OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Cash Flows
Year Ended September 30, 1992**

CASH FLOWS FROM OPERATING ACTIVITIES

Excess/(Shortage) of Revenue and Financing Sources over Total Expenses	\$ (630,548)
Adjustments Affecting Cash Flow	
Increase in Non-Federal Liabilities	596,428
Depreciation and Amortization	22,521
Gain on Sale of Fixed Assets	9,794
	<hr/>
Net Cash Used by Operating Activities	<u>(1,805)</u>

CASH FLOW FROM INVESTING ACTIVITIES

Purchases of Property, Plant and Equipment	<u>(57,168)</u>
Net Cash Used by Investing Activities	<u>(57,168)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net Cash Used by Financing Activities	<u>0</u>
Net Cash Provided by Operating, Investing, and Financing Activities	(58,973)
Fund Balances with Treasury and Cash, Beginning	<u>3,734,650</u>
Fund Balances with Treasury and Cash, Ending	<u><u>\$ 3,675,677</u></u>

The accompanying notes are an integral part of these statements

**APPRAISAL SUBCOMMITTEE
OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Organization

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council was created by Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989. The mission of the Appraisal Subcommittee is to monitor the certification and licensing programs of the States to determine compliance with Title XI of FIRREA; monitor the activities of the Appraisal Foundation; and monitor the requirements established by the Resolution Trust Corporation and the federal financial institutions regulatory agencies regarding appraisal standards for federally related transactions and determinations of which federally related transactions will require the services of State licensed or State certified appraisers. The federal financial institutions regulatory agencies include the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration. The mission of the Subcommittee also includes the establishment of a national registry of certified and licensed appraisers.

Title XI of FIRREA provides that funds available to the federal financial institutions regulatory agencies may be made available to the Federal Financial Institutions Examination Council to support the council's functions under Title XI.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accounting policies of the Appraisal Subcommittee conform to generally accepted accounting principles, as required by the Chief Financial Officers Act of 1990. Accordingly, the financial statements are presented on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment.

Fund Balances with Treasury and Cash

Under Title XI of FIRREA, the Appraisal Subcommittee received a one-time payment of \$5,000,000 from the U.S. Treasury to fund start-up expenses. Cash disbursements are generally processed by the U.S. Treasury from this one-time start-up funding source, and are considered expended borrowings which must be repaid to the U.S. Treasury general fund. Title XI of FIRREA provides that after the start-up period, expenses of the Appraisal Subcommittee must be funded through the collection of annual registry fees, which is currently \$25, for each State-licensed and certified appraiser. Such collections are the principal source of cash receipts.

**APPRAISAL SUBCOMMITTEE
OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS**

Fund balances with Treasury are comprised of amounts remaining unexpended under the one-time U.S. Treasury start-up payment of \$5,000,000. Cash balances are principally comprised of collections of annual registry fees.

Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the Appraisal Subcommittee as the result of a transaction or event that has already occurred. Liabilities are recorded in the accounts when incurred and are removed when liquidated (i.e., paid). Liabilities represent the amounts accruing under contractual or other arrangements governing the transactions, including operating expenses incurred but not yet paid.

Revenue

The revenue of the Appraisal Subcommittee is derived principally from the assessment of an annual registry fee of \$25 for each State licensed and certified appraiser. Annual registry fees are considered earned when received, except when multiple years of registry fees are received in advance, in which case the amount pertaining to subsequent years is initially recorded as deferred revenue, and recognized as earned during the applicable fee year.

Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. The balance in the accrued annual leave account reflects current pay rates. Sick and other types of manifested leave are expensed as taken.

Grants

Title XI of FIRREA provides that amounts appropriated for or collected by the Appraisal Subcommittee shall be used to make grants to the Appraisal Foundation, to help defray those costs of the Appraisal Foundation relating to the activities of its Appraisal Standards and Appraiser Qualifications Boards. Because the grants are purpose-restricted, grant expense is recorded by the Appraisal Subcommittee as activities eligible under the grant agreements are conducted by the Appraisal Foundation.

**APPRAISAL SUBCOMMITTEE
OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS**

Note 3 - Property and Equipment

Property and equipment, are stated at cost. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets. Expenditures for individual assets costing less than \$5,000 and for maintenance and repairs are charged to earnings as incurred.

The following table summarizes property and equipment balances as of September 30, 1992:

<u>Classes of Fixed Assets</u>	Service Life (years)	Acquisition <u>Value</u>	Accumulated <u>Depreciation</u>	Net Book <u>Value</u>
Furniture	10	\$ 57,168	\$ 2,626	\$54,542
ADP Equipment	3	<u>59,684</u>	<u>30,681</u>	<u>29,003</u>
		<u>\$116,852</u>	<u>\$33,307</u>	<u>\$83,545</u>

Note 4 - Borrowings

Under Title XI of FIRREA, the Appraisal Subcommittee received a one-time payment of \$5,000,000 from the Department of the Treasury to fund start-up expenses. Title XI of FIRREA provides that thereafter, expenses of the Appraisal Subcommittee must be funded through the collection of annual registry fees for State licensed and certified appraisers. Pursuant to a financing agreement with the Department of Treasury, the \$5,000,000 will be repaid to the Treasury general fund when fee revenue exceeds the Appraisal Subcommittee's operating expenses. The financing agreement, as amended, does not provide for a specified repayment term. As of September 30, 1992, \$2,530,826 of the \$5,000,000 limitation had been expended, with \$2,469,174 remaining available.

Note 5 - Retirement and Benefit Plans

The Appraisal Subcommittee contributes to the Civil Service Retirement System and the Federal Employees' Retirement System administered by the Office of Personnel Management for the benefit of U.S. Government employees. The retirement plans are participatory. Under the Civil Service Retirement System the employer and employee each contribute 7 percent of salary to the plan. Under the Federal Employees' Retirement System, 13 percent of salary is contributed by the Appraisal Subcommittee and .8 percent of salary is contributed by the employee.

Additionally, the Appraisal Subcommittee contributes up to 5 percent of base pay for participants in the Thrift Savings Plan under the Federal Employees' Retirement System.

**APPRAISAL SUBCOMMITTEE
OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS**

Contributions by the Appraisal Subcommittee during fiscal year 1992 for the Civil Service Retirement System and the Federal Employees' Retirement System aggregated \$34,857.

Although the Appraisal Subcommittee contributes a portion of pension benefits for its employees participating in the retirement plans and withholds the necessary payroll deductions from them, it has no liability for future payments to employees under these programs, and is not accountable for the assets of the Civil Service and Federal Employees' Retirement Systems nor does the Appraisal Subcommittee have actuarial data concerning the accumulated plan benefits or the unfunded pension liability relating to its employees. These amounts are reported by the Office of Personnel Management for the retirement systems and are not allocated to the individual employers. The Office of Personnel Management also accounts for all health and life insurance programs for retired federal employees.

Note 6 - Appraisal Foundation Grant

Title XI of FIRREA provides that amounts appropriated for or collected by the Appraisal Subcommittee shall be used to make grants to the Appraisal Foundation, to help defray those costs of the Appraisal Foundation relating to the activities of its Appraisal Standards and Appraiser Qualification Boards. Since inception of the Appraisal Subcommittee on August 9, 1989, it has made two grants to the Appraisal Foundation under which \$883,062 was expended through September 30, 1992. As of September 30, 1992, amounts unexpended but remaining available to the Appraisal Foundation for eligible activities under these grants totalled \$519,230.

Note 7 - Interagency Transactions

In conducting its administrative operations, the Appraisal Subcommittee uses the services of various other Federal agencies. The two largest of these administrative service arrangements are with the U.S. Department of Housing and Urban Development (HUD) and the General Services Administration (GSA) for certain accounting and reporting functions, and the processing of payroll and related benefits, respectively. Operating expenses of the Appraisal Subcommittee include \$5,200 for services provided by GSA related to processing of payroll and related benefits. From its inception through fiscal year 1990 the Appraisal Subcommittee remitted a single payment in the amount of \$20,665 to HUD for accounting and reporting services provided. Thereafter, the Appraisal Subcommittee has not been charged for services performed by HUD.

Price Waterhouse



Report of Independent Accountants on Internal Controls

The Appraisal Subcommittee of the
Federal Financial Institutions Examination Council

We have audited the financial statements of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council (Appraisal Subcommittee) as of and for the year ended September 30, 1992, and have issued our report thereon dated June 30, 1993.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Appraisal Subcommittee for the year ended September 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Appraisal Subcommittee is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cash
- Revenues, Accounts Receivable, and Receipts
- Purchases, Accounts Payable, and Disbursements
- Property and Equipment
- Financial Reporting

For all of the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted a matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The Appraisal Subcommittee should adopt formal reconciliation procedures

The Department of Housing and Urban Development (HUD) provides accounting and disbursement services to the Appraisal Subcommittee. Specifically, these services include (1) processing disbursement transactions and submitting them to the Department of the Treasury for payment; (2) maintaining a general ledger and subsidiary ledgers of individual account activity and balances; (3) reconciling the Appraisal Subcommittee's general ledger cash balance with the Department of the Treasury's record of the cash balance; and, (4) preparing certain annual reports required by the Department of the Treasury and the Office of Management and Budget.

Although the Appraisal Subcommittee maintains detailed records of the data submitted to HUD for processing, it does not receive substantially all reports prepared by HUD on its behalf. Therefore, the Appraisal Subcommittee does not have formal procedures in place to review reports prepared by HUD, and has not been able to ensure that information submitted to HUD was subsequently processed completely and correctly by HUD.

Reconciliation of source documentation with the corresponding accounting reports prepared by HUD would ensure that data is processed accurately and completely. The General Accounting Office's (GAO) *Policy and Procedures Manual for Guidance of Federal Agencies* (Title 2) states that "General ledger balances must be



reconciled with subsidiary accounts and [source] records...in a timely manner. Regularly scheduled reconciliation...helps to substantiate and maintain the accuracy of account postings and balances..."

Appraisal Subcommittee management stated that because the organization is relatively new, it was unaware that certain reports were prepared by, or available from, HUD. We recommend that the Appraisal Subcommittee request that HUD submit to them on a monthly basis, all regularly prepared reports of transactions processed, subsidiary ledgers, general ledger trial balances, and reports from the Department of the Treasury confirming that requested disbursements were accomplished. We also recommend that the Appraisal Subcommittee request and receive quarterly and fiscal year-end reports prepared by HUD for the use of external parties¹. The Appraisal Subcommittee should review these reports, compare them to source documentation submitted to HUD for processing, and ensure that the reports prepared by HUD on its behalf are complete and accurate.

* * * * *

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition described above is not a material weakness.

This report is intended for the information of management of the Appraisal Subcommittee. However, this is not intended to limit distribution of this report, when it becomes a matter of public record.

Pricewaterhouse

June 30, 1993

¹Including Apportionment and Reapportionment Schedules (SF-133); and, the TFS-220 series reports, such as the Reports on Financial Position, Operations, and on Cash Flow, and all supporting schedules

Price Waterhouse



Report of Independent Accountants on Compliance

The Appraisal Subcommittee of the
Federal Financial Institutions Examination Council

We have audited the financial statements of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council (Appraisal Subcommittee) as of and for the year ended September 30, 1992, and have issued our report thereon dated June 30, 1993.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Appraisal Subcommittee is the responsibility of the Appraisal Subcommittee's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Appraisal Subcommittee's compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Appraisal Subcommittee complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Appraisal Subcommittee had not complied, in all material respects, with those provisions.

This report is intended for the information of management of the Appraisal Subcommittee. However, this is not intended to limit distribution of this report, when it becomes a matter of public record.

Price Waterhouse

June 30, 1993