

APPRAISAL SUBCOMMITTEE
Federal Financial Institutions Examination Council

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The Appraisal Subcommittee

An Introduction

History

The Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council (FFIEC) was created on August 9, 1989, pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI). (See Appendix B, *Statutory References*). Title XI's purpose 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.¹ The ASC is an FFIEC subcommittee. The FFIEC was established pursuant to Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The FFIEC is an inter-agency body empowered to set uniform principles for the examination of federally regulated financial institutions.

¹A federally related transaction includes any real estate-related financial transaction which: (a) a Federal financial institutions regulatory agency engages in, contracts for, or regulates; and (b) requires the services of an appraiser.

Members

The ASC has six members, each designated respectively by the heads of the:

- Office of the Comptroller of the Currency (OCC);
- Board of Governors of the Federal Reserve System (FRB);
- Federal Deposit Insurance Corporation (FDIC);
- Office of Thrift Supervision (OTS);
- National Credit Union Administration (NCUA); and
- U.S. Department of Housing and Urban Development (HUD).

Section 1103 of Title XI sets out the ASC's general responsibilities:

- Monitor the requirements established by the States, Territories, and the District of Columbia (States) for the certification and licensing of appraisers qualified to perform appraisals in connection with federally related transactions, including a code of professional responsibility. The ASC reviews each State for compliance with the requirements of Title XI, and the ASC is authorized to take action in the case of non-compliance;
- Monitor the requirements established by the Federal financial institutions regulatory agencies [and the Resolution Trust Corporation*] with respect to appraisal standards for federally related transactions under their jurisdiction, and determinations as to which federally related transactions under their jurisdiction require the services of a State certified appraiser or State licensed appraiser;
- Maintain a National Registry (Registry) of State certified and State licensed appraisers who may perform appraisals in connection with federally related transactions; and
- Monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

*The Resolution Trust Corporation was dissolved in 1995.

Message from the Chairman

Twenty years ago, Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (Title XI) led to the creation of the Appraisal Subcommittee (ASC). Title XI empowered the ASC with the responsibility to oversee the functions of the State appraiser regulatory programs and the Appraisal Foundation, and to provide Federal grants to the Appraisal Foundation boards—the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB).

The 2009 Annual Report presents an overview of the ASC's accomplishments during its eighteenth year of operation. Working with the Federal financial institutions regulatory agencies and HUD (Member Agencies), the Appraisal Foundation and the States, the ASC continues to focus on its mission to: (1) oversee the appraiser regulatory programs established by the States, Territories and the District of Columbia (States); (2) monitor the requirements addressing appraisal standards for federally related transactions; (3) maintain the National Registry of State certified and licensed appraisers; and (4) monitor and review operations of the Appraisal Foundation.

State Appraiser Regulatory Program Oversight

Fifty-five States and Territories (States) have laws and regulations in place that enable them to fulfill their role as administrators of their individual appraiser licensing and certification programs (Program). All States require, at a minimum, that certified appraisers meet the *Real Property Appraiser Qualification Criteria* as adopted by the AQB (AQB Criteria). The AQB Criteria include education, experience, and examination requirements, and are accompanied by Interpretations and Guide Notes. The States also have laws in place requiring certified and licensed appraisers to conform to the *Uniform Standards of Professional Appraisal Practice* (USPAP) when performing

appraisals in connection with federally related transactions and other real estate-related financial transactions.

Due to ongoing concerns with several States' Programs, in 2007 the ASC determined that increasing the frequency of ASC Compliance Reviews of States' Programs (Compliance Reviews) would be beneficial. Beginning in 2008, the ASC began conducting Compliance Reviews no less than once every two years, whereas previously Compliance Reviews were conducted no less than once every three years. Additionally, in 2009 the overall process was modified to provide the States the opportunity to respond to the ASC staff findings prior to finalization of the Compliance Review. The year 2009 marked the first full year of the new process and the results appear to be positive. Revisions to the Compliance Review process allows the States to review ASC staff's Preliminary Findings. States are then invited to respond to the ASC staff Findings and/or make alterations to their Program. Any response or Program alterations are considered by the ASC in its final disposition of the Compliance Review. The ASC staff monitors required, as well as recommended, corrective actions and areas of concern on a State-by-State basis. Results from the 2009 Compliance Reviews indicate that the revised process and more frequent interaction with the States are improving overall compliance with Title XI. The 2009 Annual Compliance Review Findings (see Appendix C, *2009 Annual Compliance Review Findings*) presents non-compliance occurrences organized by compliance requirement.

Compliance Reviews consist of assessing the States' Programs for compliance with Title XI in accordance with the ASC Policy Statements and the AQB Criteria regarding State certification and licensing of real estate appraisers. In 2009, the ASC completed 24 Compliance Reviews and one Follow-up Review. In addition, ASC staff conducted six State Priority Contact visits which are scheduled on an as-needed basis.

In 2009, the ASC received National Registry submissions from all States. The States generally submit Registry data, including enforcement actions, no less than monthly. At year-end, the Registry contained over 116,000 entries, down approximately 4% from the 121,000 entries at the end of 2008. (See Appendix D, *National Appraiser Credential License and Certification Statistics*.)

Policy Statements

The ASC periodically issues Policy Statements to assist the States in the continuing development and maintenance of appropriate organizational and regulatory structures within their Programs for certifying, licensing and supervising real estate appraisers. The Policy Statements reflect the general framework that the ASC uses to review a State's Program for compliance with Title XI.

No substantive changes were made to the Policy Statements in 2009. In 2010, the ASC plans to undertake a comprehensive review of the current Policy Statements and amend them as necessary. Prior to adopting any significant changes to the Policy Statements, the ASC will publicly expose proposed changes and solicit comments from the States and other interested parties. Once the ASC is confident that there has been adequate exposure and feedback, the ASC will consider final adoption of any revisions.

ASC Policy Statements are available on the ASC website at <https://www.asc.gov> or by contacting the ASC staff at (202) 289-2735.

Appraisal Foundation Monitoring and Oversight

The Appraisal Foundation (Foundation) through its two boards, the AQB and the ASB, serves as the congressionally authorized source of appraiser qualifications and appraisal standards. In monitoring the Foundation's Title XI-related activities, ASC staff attends all AQB, ASB, and Foundation Board of Trustees meetings. ASC staff also reviews all proposed and final published documents regarding the AQB Criteria and USPAP. Written comments are made to the Foundation or its boards on an as-needed basis.

ASC Grants

The ASC funds much of the Foundation's Title XI-related activities. In 2008, the ASC agreed to provide the Foundation an additional grant for the development, presentation, and hosting of State Investigator Training Courses. The course was developed and sponsored by the Foundation and the Association of Appraiser Regulatory Officials (AARO). During 2009, the course was offered in four locations across the country. Attendance at these courses was exceptional: 49 of the 55 States attended, and over 160 State investigators, board members, attorneys and board staff participated. The grant included funding for attendees' materials, lodging, and travel expenses for at least three individuals from each State. The goal was to promote more effective complaint investigation and resolution by establishing training for State investigators. The training covered topics such as USPAP and proper investigative techniques, and provided resources to aid the States in their investigative process of complaints against appraisers.

Due to the positive feedback from the States, the ASC approved additional funding for two more basic level and two advanced investigator courses for 2010. The advanced courses are intended for those individuals who have already successfully completed the initial training course.

The ASC approved a grant to finance the Foundation's efforts to develop an approval process to review college graduate degree programs to assess whether these programs substantially meet the requirements of the AQB Criteria's required core curriculum. Graduates of programs deemed equivalent will have a substantial portion, if not all, of their course work recognized as meeting the AQB Criteria's educational requirements for certification. The ASC also provided grants for the ongoing work of both the ASB and AQB. The ASC provided \$1.42 million in grant funding to the Foundation in fiscal year (FY) 2009.

Financial Overview

The ASC's expenses for the fiscal year (FY) ending September 30, 2009, were approximately \$3.45 million, including approximately \$1.42 million in grant payments to the Foundation. Nearly \$3.1 million in National Registry fees were collected, which is a slight decrease from nearly \$3.2 million collected the previous year (FY 2008). The ASC's FY 2009 audited financial statements are presented in Appendix A.

Staff Changes

In March 2009, James R. Park was named Executive Director of the agency. Mr. Park is a certified general appraiser and has over 24 years of risk management experience in the mortgage banking and appraisal professions.

He is the third individual to hold the position of Executive Director.

In February 2009, the ASC added a fourth Policy Manager, Neal Fenochietti. Mr. Fenochietti has over 23 years of experience with the Massachusetts Division of Professional Licensure where he began as a Real Estate Investigator. He served for ten years as the Associate Director for the Board of Real Estate Brokers and Salespeople, and the Board of Registration of Real Estate Appraisers.

In October 2009, the ASC added a second Administrative Officer, Claire Brooks. Ms. Brooks has an extensive background with the Federal government, including positions with the National Credit Union Administration and the United States Patent and Trademark Office.

National Registry

As required by Title XI, the ASC maintains a National Registry (Registry) of all certified and most licensed appraisers in the United States. The Registry is accessible at the ASC's website (<https://www.asc.gov>), and is open to and used by appraisers, Federal and State agencies, regulated financial institutions, users of appraisal services, and consumers. The Registry allows users to determine whether a person is State certified or licensed to perform appraisals in connection with federally related transactions. Users can also determine whether a person's credential has been suspended, revoked, or surrendered (in lieu of State enforcement action).

By making this information publicly available, the Registry facilitates temporary practice and reciprocity, assists State agencies in enforcing their appraiser-related statutes

and regulations, and enables consumers and users of appraisal services easy access to an appraiser's credential status and history. Further, financial institutions and other users are able to use the Registry in other ways, such as:

- Receiving automatic notifications by email each day about new revocations, suspensions, surrenders, and certificate/license expirations;
- Downloading all releasable information or parts of the Registry into predefined queries and user-customized queries; and
- Verifying the status of a credentialed appraiser.

The Registry contains both public and non-public data (e.g., certain disciplinary action information). Access to non-public data is restricted to authorized State and Federal agency representatives. Use of the Registry is free to the public.

The Registry is one of several features of the ASC's website. The public can read and download ASC correspondence, Title XI, ASC Policy Statements, charts summarizing State appraiser requirements, and State agency contact information. In addition, the website has a comprehensive Freedom of Information Act "reading room" that is updated regularly and conforms to the Electronic Freedom of Information Act Amendments of 1996, 5 U.S.C 552(a)(2). During 2008, improvements were made to some of the search engines, and a Frequently Asked Questions document was added to further improve the usefulness of the ASC website.

Appraisal Subcommittee

Member Representatives

The Appraisal Subcommittee is made up of six individuals appointed by and representing the heads of the Federal financial institutions regulatory agencies (Agencies) and HUD. Title XI requires the FFIEC to appoint a chairperson from the member representatives to serve a two-year term.

Virginia Gibbs, Chairman, 2004–2009, Senior Supervisory Financial Analyst, Division of Banking Supervision and Regulation, Federal Reserve Board, and member from November 1992 to present.

Steven D. Fritts, Member, Associate Director, Risk Management Policy, Division of Supervision and Consumer Protection, Federal Deposit Insurance Corporation, October 2002 to present (Alternate Member, Beverlea S. Gardner).

Robert L. Parson, Member, Appraisal Policy Specialist, Credit and Market Risk Division, Office of the Comptroller of the Currency, April 2009 to present (Alternate Member, Doreen Ledbetter).

Vance S. Price, Member, National Bank Examiner, Credit and Market Risk Division, Office of the Comptroller of the Currency, October 2007 thru March 2009 (Alternate Member, Doreen Ledbetter).

Deborah Merkle, Member, Project Manager, Risk Management, Supervision Policy, Office of Thrift Supervision, December 2004 to present (Alternate Member, William J. Magrini).

John Kutchey, Member, Deputy Director, Office of Examination and Insurance, National Credit Union Administration, March 2009 to present (Alternate Member, Joy Lee).

Peter Gillispie, Member, Appraiser and Housing Program Policy Specialist, Office of Single Family Program Development, HUD, August 2008 to present (Alternate Member, Donna Tomposki).

Administration of the Appraisal Subcommittee

ASC Staff

James R. Park, Executive Director (March 30–present)

Denise E. Graves, Deputy Executive Director

Alice M. Ritter, General Counsel

Vicki A. Ledbetter, Appraisal Policy Manager

Jenny Howard Tidwell, Appraisal Policy Manager

Kristi Klamet, Regulatory Policy Manager

Neal Fenochietti, Regulatory Policy Manager (February 1–present)

Lori L. Schuster, Administrative Officer

Claire Brooks, Administrative Officer (October 11–present)

Ray M. Seward, Information Management Specialist

Monthly meetings of the ASC

The Subcommittee holds monthly meetings, portions of which are open to the public. Instructions on how to submit a request to attend a meeting are available on the ASC website. The meeting agenda is posted on the website approximately five business days prior to the scheduled meeting.

Monitoring State Appraiser Regulatory Programs

The ASC monitors each State's appraiser licensing and certification regulatory program (Program) for compliance with Title XI, AQB Criteria and ASC Policy Statements. Review of the States' Programs focuses on three key components of Title XI: (1) implementation and enforcement of USPAP and the AQB Criteria; (2) adequacy of the States statutory or regulatory authority to successfully carry out its Title XI-related functions; and (3) consistency with Title XI in the decisions of the States' Programs. Monitoring State Programs is largely accomplished through the on-site visits to the States (i.e., Compliance Reviews).

The ASC has maintained closer contact with the States over the past 24 months. By increasing communication (both formal and informal), the ASC has been better able to resolve issues in States' Programs before they become critical. For example, the ASC has increased the number of on-site Compliance Reviews of select State Programs. Currently, the ASC performs an on-site Compliance Review of each State at least once every two years. ASC staff also visits States experiencing compliance issues at least annually until the concerns are resolved.

The ASC identified 8 States that collectively represent nearly 50% of the appraiser credentials on the National Registry. Since these States represent a significant number of the credentials on the National Registry, the ASC staff performs annual on-site reviews of these States. The States are California, Colorado, Florida, Georgia, Illinois, New York, Texas, and Virginia (listed alphabetically). Additionally, when a specific concern is identified that requires special attention by the ASC staff, a Priority Contact Review for that particular State is scheduled on a case-by-case basis.

In 2009, the appraisal policy managers conducted 31 on-site visits. The increased contact with the States appears to be producing some improvement in the States' Programs. The number of Compliance Review Findings (see Appendix C, *2009 Annual Compliance Review Findings*) declined

in 2009 as compared to 2008. Given the lack of resources faced by many States, the ASC views these results as positive. States face significant challenges given the current financial environment, which may have negative implications for some State Programs. It is important that the fees generated and retained by the Programs are sufficient to maintain a compliant Program.

ASC staff and board members also maintain contact with other industry participants, including consumers, regulators, lenders, and appraisers. Written communications are available on the ASC website under the Freedom of Information Act (FOIA) Reading Room tab under Resources and Records.

Compliance Review Program

In 2009, the ASC implemented revisions to the Compliance Review process. The new process provides the States with an opportunity to review the ASC staff's Preliminary Findings, and ask questions and provide their response to the ASC. Reviews are scheduled to coincide with a meeting of the Program's decision-making body whenever possible, and are conducted over a two- to four-day period. The ASC's review criteria remains relatively unchanged. The major change is the method of communicating the ASC staff's Preliminary Findings to the States. Once ASC staff completes their Preliminary Findings, which are communicated in an ASC staff report to the State, the State is given 60 days to respond. The ASC staff then considers the State's response(s) and makes formal recommendations to the ASC for final disposition. The ASC considers the ASC staff report and recommendations along with responses from the State Program before rendering a decision. The ASC issues a final report and letter to the State with a determination of the State's compliance with Title XI. The general areas of non-compliance with Title XI and the number of States experiencing those problems are presented in the 2009 *Annual Compliance Review Findings* table (Appendix C).

Activities of the Agencies and HUD

Following Title XI's adoption in 1989, each Agency and HUD adopted appraisal-related rules and policies implementing Title XI. The Agencies' appraisal regulations are in volume 12 of the Code of Federal Regulations at: part 34, subpart C (OCC); part 208 subpart E, and part 225, subpart G (FRB); part 323 (FDIC); part 564 (OTS); and part 722 (NCUA). The OCC, FRB, FDIC, and OTS jointly adopted Interagency Appraisal and Evaluation Guidelines in October 1994. HUD's appraisal regulations are in volume 24 of the Code of Federal Regulations at part 200.200 through 200.206.

Under the Agencies' appraisal regulations, regulated institutions must ensure that appraisals supporting federally related transactions adhere to USPAP, as well as the Agencies' minimum appraisal standards. The Agencies have also issued other guidance documents related to appraisal requirements at federally regulated financial institutions, including:

- *Interagency Statement on Independent Appraisal and Evaluation Functions (2003)*
- *Frequently Asked Questions on Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions (2005)*
- *Frequently Asked Questions on Residential Tract Development Lending (2005)*
- *The 2006 Revisions to Uniform Standards of Professional Appraisal Practice (2006)*

In November 2008, the FRB, FDIC, NCUA, OCC, and OTS jointly issued for comment a proposal to revise the Interagency Appraisal and Evaluation Guidelines. The revisions were meant to reaffirm supervisory expectations for sound real estate appraisal and evaluation practices for federally regulated financial institutions. The proposed guidance would apply to all real estate lending functions

within a federally regulated financial institution, including commercial and residential lending departments, capital market groups, and asset securitization and sales units. The comment period ended on January 20, 2009.

The proposed guidance would replace the 1994 Interagency Appraisal and Evaluation Guidelines to reflect changes in industry practice, uniform appraisal standards, and technology. The proposed guidance incorporates supervisory guidance that the Agencies have issued since 1994, and clarifies their expectations for risk management principles and internal controls for a regulated institution's real estate collateral valuation function. The proposal also includes a discussion on the use of automated valuation models in the development of an evaluation of real estate collateral for real estate transactions below the appraisal threshold in the Agencies' appraisal regulations. The proposed revisions include:

- Additional detail on the Agencies' expectations for an independent appraisal and evaluation function.
- Greater explanation of the Agencies' minimum appraisal standards, including clarification of requirements for appraisals of residential tract developments.
- Updated references to the *Uniform Standards of Professional Appraisal Practice*, which are incorporated by reference in the Agencies' appraisal regulations.
- An emphasis on risk-focused appraisal and evaluation reviews separate and apart from an institution's compliance function.
- Three new appendices—an appendix on exemptions from the Agencies' appraisal regulations; an appendix on acceptable evaluation alternatives and use of automated valuation models; and an appendix containing a glossary of terms.

On October 1, 2009, the Federal Reserve Board's amended Regulation Z (Truth in Lending Act) for home mortgage loans took effect. The amended regulation is designed to better protect consumers and facilitate responsible lending. The rule prohibits unfair, abusive or deceptive home mortgage lending practices and restricts certain other mortgage practices. The rule also establishes advertising standards and requires certain mortgage disclosures to be given to consumers earlier in the transaction. The rule adds key consumer protections for a newly defined category of "higher-priced mortgage loans" secured by a consumer's principal dwelling. Several other protections took effect for loans secured by a consumer's principal dwelling, regardless of whether the loan is higher-priced, including a provision that creditors and mortgage brokers are prohibited from coercing a real estate appraiser to misstate a property's value.

The Federal Housing Administration (FHA) programs of HUD require an appraisal, which must include an assessment of the property's condition to determine the market value and acceptability of the subject property for the purpose of obtaining an FHA-insured mortgage. Appraisers on the FHA Appraiser Roster are eligible to perform the required appraisal of a property that is to serve as collateral for an FHA-insured mortgage. Lenders participating in FHA programs must accept equal responsibility with appraisers for the integrity, credibility, and accuracy of appraisals.

In 2009, HUD released policy statements addressing several appraisal issues:

- Mortgagee Letter 2009-09—Market Conditions Form. In order to ensure greater transparency and accuracy of appraisals performed for FHA-insured financing, FHA adopted the Market Conditions Addendum (Fannie Mae Form 1004MC/ Freddie Mac Form 71, released November 2008). For all appraisals of properties that are to be security for FHA-insured mortgages and that are performed on or after April 1, 2009, the appraisal must include the Market Conditions Addendum.
- Mortgagee Letter 2009-28—Appraiser Independence. This mortgagee letter provides clarification and reaffirms FHA's appraisal requirements related to appraiser independence, and announces new requirements pertaining to entities eligible to order appraisals for FHA-insured mortgages as follows:
 - Prohibits mortgage brokers and commission-based lender staff from ordering appraisals;
 - Prohibits withholding or threatening to withhold payments or future business, or promise of future business;
 - Reiterates prohibition against predetermined conclusions;
 - Prohibits "comp checks" or initial values prior to completion of an appraisal report;

- Prohibits removal of appraisers from lender approved lists without notice to appraisers that includes the reason for removal; and
- Prohibits second appraisals or AVMs (automated valuation model) unless the original appraisal is deficient or the second valuation is obtained as part of a pre or post closing quality control program.
- Mortgagee Letter 2009-29—Appraisal Portability. This mortgagee letter addresses the portability of appraisals for the purpose of facilitating the loan process when a borrower switches from one FHA-approved lender (first lender) to another (second lender) and an appraisal was ordered by and completed for the first lender. This mortgagee letter will be effective for all case numbers assigned on or after January 1, 2010.
- Mortgagee Letter 2009-30—Appraisal Validity Periods. This mortgagee letter announces a change to the validity period for appraisals used for FHA-insured mortgages.
- Mortgagee Letter 2009-41—Appraisal Performance Standards. The purpose of this mortgagee letter is to remind mortgagees and appraisers of: (1) FHA appraisal performance standards used by FHA in its compliance monitoring of appraisers; and (2) FHA's enforcement standards and sanctions that can be imposed by the Department upon appraisers who do not comply with FHA's appraisal reporting requirements or with USPAP.

Also, in 2009, FHA implemented a series of procedures and policies in its comprehensive update of the appraisal review process. These included the development of a desktop guide on the appraisal review process, a revised appraisal review form and a revised algorithm for targeting appraisals. FHA has strived to better communicate with appraisers on the FHA Appraiser Roster and has developed a listserv to enable the dissemination of policy and other updates via email.

Effective for all case numbers assigned on or after January 1, 2010, the validity period for all appraisals on existing and proposed and under construction properties will be 120 days. This change aligns FHA's requirements pertaining to the validity of an appraisal with current industry practices.

Activities of the Appraisal Foundation

The Appraisal Foundation is a private, not-for-profit corporation chartered by Title XI with the responsibility to establish, improve, and promote uniform appraisal standards and minimum appraiser qualifications criteria. The Foundation serves as the parent organization for two boards established to accomplish this mission: the Appraisal Standards Board (ASB) and the Appraiser Qualifications Board (AQB). These boards respectively promulgate and maintain the *Uniform Standards of Professional Appraisal Practice* (USPAP) and the *Real Property Appraiser Qualification Criteria* (AQB Criteria).

The Foundation ensures that USPAP and the AQB Criteria are disseminated to State and Federal regulators, appraisers, users of appraisal services, and the general public. The Foundation sells printed copies of USPAP upon request and provides copies of the AQB Criteria at no charge. This information also can be accessed at no charge on the Foundation's website. The Foundation continues its electronic newsletter, Foundation e-News, which is available free to subscribers.

Title XI requires the ASC to monitor and review the practices, procedures, activities, and organizational structure of the Foundation. Title XI also authorizes the ASC to provide grants to the Foundation in such amounts as the ASC deems appropriate to support the Title XI-related activities of the Foundation and its boards. The ASC approved 2009 grants totaling \$1.42 million to support the Foundation's Title XI-related activities. Between 1990 and 2008, the ASC has provided close to \$14 million in grant funds to the Appraisal Foundation and its two boards. The ASC engages a public accounting firm to review the Foundation's grant-related activities and the request(s) for reimbursement.

Appraiser Qualifications Board

The AQB accomplished the following actions in four public meetings held during 2009:

- The AQB continued to provide guidance on how to properly understand and apply the most recent AQB Criteria that became effective on January 1, 2008.
- The AQB adopted one new Interpretation and two new Guide Notes to the Criteria in 2009. Both the Interpretation and Guide Note 7 address the issue of candidates for a real property appraiser credential receiving qualifying education credit if they have obtained a graduate degree in real estate from a program reviewed and approved by the AQB.

Guide Note 8 addresses college-level educational requirements as specified in the AQB Criteria, including the issue of college-level education obtained in a foreign country and methods by which that education may be evaluated for equivalency in the United States.

The AQB members and staff of the Appraisal Foundation continued to attend meetings and made presentations to various State appraiser regulatory agencies and appraisal organizations throughout the country in 2009.

State Licensing and Certification Examinations

2009 marked the second year of implementation of the new National Uniform Licensing and Certification Examinations. The AQB observed that those exam candidates with pre-2008 education performed poorly compared to

those exam candidates who completed the 2008 education requirements. There was a noticeable improvement in applicant performance on the exams in 2009, reflecting that more candidates have completed the more comprehensive 2008 educational requirements. By the end of 2009, national pass rates for first-time takers of the exam ranged from approximately 50% to 65%.

In 2009, the AQB continued to work with its exam development consultant, Comira, to develop new questions to build the exam question bank, and to create additional versions of the exams. As in 2007 and 2008, the AQB provided oversight to panels of Subject Matter Experts (SMEs) for each examination level (licensed residential, certified residential, and certified general).

Improved USPAP Instruction Program

As was the case in prior years, the AQB continued to work with the ASB and the Foundation staff to improve the AQB Certified USPAP Instructor Certification Course and examination. By the end of 2009, over 600 individuals had passed the course and earned the credential of AQB Certified USPAP Instructor.

In mid-2007, the AQB elected to pull the 7-hour Instructor Recertification Course for review and revision, responding to concerns of some certified USPAP instructors that the course needed to be updated. These concerns were, at least in part, due to the transition in the USPAP publication cycle from a one-year to a two-year document. Many certified USPAP instructors found themselves teaching the “new” USPAP prior to attending an Instructor Recertification Course. In 2008 and 2009, the AQB worked with the ASB to design a more meaningful and effective Instructor Recertification Course. The AQB began offering a new online Instructor Recertification Course on October 1, 2009, which covered not only the changes made to USPAP for the 2010-11 edition, but

also highlighted certified instructors’ performance requirements under the Foundation’s Performance and Confidentiality agreements. All certified instructors were required to complete the new Instructor Recertification Course prior to teaching the 2010-11 edition of the National USPAP Courses, and in any event, are required to do so prior to March 31, 2010, in order to maintain their credential.

In 2009, the AQB implemented a system to survey students of the National USPAP Courses regarding the performance of AQB Certified USPAP Instructors. The system was designed to be educational for the Instructors. However, egregious violations of the code of conduct are addressed by the Appraisal Foundation’s disciplinary panel who monitors certified instructor performance.

National USPAP Courses

In 2009, the Appraisal Foundation, for the first time, developed its own online National USPAP Courses. Because a myriad of “equivalent” online courses had been developed and offered by education providers over the years, the Appraisal Foundation believed it was necessary to develop its own version of the 15-hour National USPAP Course and 7-hour National USPAP Update Course to establish parameters for other providers seeking to offer online courses.

As with the classroom versions of the USPAP courses, the AQB established the learning objectives and outlines for the online courses. The AQB worked in tandem with the ASB to develop the online USPAP courses, which were offered by the Appraisal Foundation as of October 1, 2009. The Appraisal Foundation also developed functional specifications for the online courses in mid-year 2009, which allowed other education providers to develop equivalent online courses.

Course Approval Program

The Foundation's voluntary Course Approval Program (CAP) is designed to facilitate State approval of appraiser education courses submitted by course providers. This national clearinghouse of appraisal courses streamlines the course approval process for both course providers and States. At the end of 2009, there were over 300 courses approved by the AQB through CAP, including 17 courses that were approved as equivalent to the 2008-09 National USPAP Courses, and four courses that were approved as equivalent to the new 2010-11 National USPAP Courses. All approved courses are posted on the Foundation's website. In addition, a national course clearinghouse is available, which provides State appraiser regulators with secure access to review course materials submitted for all CAP-approved courses.

Appraisal Standards Board

The ASB accomplished the following in four public meetings held during 2009:

- Adoption of the 2008-09 edition of USPAP, which was effective from January 1, 2008 through December 31, 2009, and the 2010-11 edition of USPAP, which is effective from January 1, 2010 through December 31, 2011.

In late 2007 and throughout much of 2008, the ASB conducted an unprecedented outreach effort to query appraisers, users of appraisal services, educators, and the public regarding their opinions on the clarity and effectiveness of USPAP. Based on oral and written comments received from over 2,000 individuals, the ASB developed a work plan that outlined potential areas of USPAP that could be addressed for the 2010-11 edition of USPAP, as well as issues to address in the 2012-13 edition. The proposed work plan was distributed for public comment, and after receiving wide support, the ASB embarked on a proposed course of action.

For the 2010-11 edition of USPAP, the ASB decided the following areas of USPAP would be addressed:

- Definition of "Signature"
- Definition of "Jurisdictional Exception"
- Definition of "Assignment"
- The ETHICS RULE
- The COMPETENCY RULE
- The JURISDICTIONAL EXCEPTION RULE
- STANDARD 3, Appraisal Review, Development and Reporting

In addition, the ASB decided the following areas of USPAP would be addressed for the 2012-13 edition:

- Reporting
- STANDARDS 7 and 8

The First Exposure Draft of proposed changes for the 2010-11 edition of USPAP was issued in October 2008. As a result of the comments received, the ASB issued a Second Exposure Draft in December 2008, requesting written comments as well oral comments at its meeting in January 2009. The ASB issued a Third Exposure Draft in February 2009, and adopted changes for the 2010-11 edition of USPAP at its public meeting in April 2009. During the remainder of 2009, the ASB worked in concert with the AQB to revise the National USPAP Courses, the Instructor Recertification Course, and the USPAP document itself.

Frequently Asked Questions (USPAP FAQ)

In 2009, the ASB continued to publish monthly USPAP questions and answers in response to inquiries from appraisers, users of appraisal services, and regulators. These additional questions were compiled and added to the Frequently Asked Questions portion of the USPAP document. All existing questions were reviewed for their relevancy and accuracy, and questions that were no longer appropriate were deleted.

The 2010-11 edition of USPAP also incorporated the USPAP FAQ's into a single document with USPAP and the Advisory Opinions, utilizing a master index for easy reference.

National USPAP Courses

To reflect the modifications for the 2010-11 edition of USPAP, the ASB updated and revised the course content of both the 15-hour and 7-hour National USPAP Courses. For the first time, the ASB (along with the AQB) created the content for the online versions of the National USPAP Courses. The 15-hour National USPAP Course is designed for those students entering the appraisal profession, and is a comprehensive course on USPAP. The 2010-11 edition of the 7-hour National USPAP Update Course is designed to be much more meaningful to practicing appraisers who are required to complete the course every two years. It highlights the revisions to USPAP and focuses on several key USPAP Q&A's, as well as providing a case study for attendees.

Improved USPAP Instruction Program

The ASB continued to work with the AQB and Foundation staff to improve course and examination material for the AQB Certified USPAP Instructor program. To date, the ASB has presented the Instructor Certification Course to over 1,000 students.

The ASB also worked with the AQB in 2009 to create the online Instructor Recertification Course, which was designed to be more timely and meaningful to certified USPAP instructors.

Board of Trustees

The Appraisal Foundation is led by a 25-member Board of Trustees charged with appointing members to the AQB and ASB, as well as providing oversight of the activities and funding of these two boards. Ten members of the board are elected at-large, with the balance of the board being appointed by the Foundation's Sponsoring Organizations and Advisory Councils.

At the end of 2009, the Appraisal Foundation's Board of Trustees voted to begin work on implementing a third board in 2010. This board, the Appraisal Practices Board (APB), will be similar in structure to the AQB and the ASB, and will be responsible for issuing voluntary and timely guidance to appraisers on emerging valuation issues occurring in the marketplace. This guidance will assist appraisers, regulators and educators. The new board will enlist the help of market surveys to identify issues that need to be addressed and will empanel small groups of volunteer Subject Matter Experts (SME) to draft the guidance for review and approval by the APB. The SME panels will be selected by the APB to address specific topic issues within agreed upon timeframes. It is anticipated that the APB will be seated in July 2010, with the SME panels to be established in the latter part of 2010.

During 2009, Paul Welcome of Olathe, Kansas served as Chairman, and David Wilkes of Tarrytown, New York served as Vice Chairman.

Financial Status of the ASC

In FY 2009, revenue totaled approximately \$3.1 million, and expenses (including grants to the Appraisal Foundation) totaled approximately \$3.45 million.

Appendix A contains the ASC's FY 2009 audited financial statements, ending September 30, 2009. The ASC operated at a financial loss of approximately \$380,000. The ASC determined that operating at a loss during FY 2009 was not inappropriate given the size of the ASC reserves at nearly \$5.6 million, and taking into account the increase in the amount of the grant reimbursements made to the Appraisal Foundation. The external auditors did not find any material weakness involving the ASC's internal control structure and operation, or any material instances of noncompliance with selected provisions of applicable laws and regulations tested.

Appendix A

Financial Statements

Financial Statements

Appraisal Subcommittee Financial Statements

September 30, 2009 and 2008



INDEPENDENT AUDITORS' REPORT

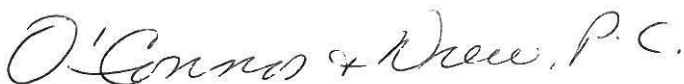
To the Appraisal Subcommittee of the
Federal Financial Institutions Examination Council

We have audited the accompanying statements of financial position of the Appraisal Subcommittee as of September 30, 2009 and 2008, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Subcommittee's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide 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 as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2010 on our consideration of the Appraisal Subcommittee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Certified Public Accountants

January 27, 2010

APPRAISAL SUBCOMMITTEE

Statements of Financial Position

September 30,

Assets

	<u>2009</u>	<u>2008</u>
Assets:		
Fund balances with U.S. Treasury	\$ 6,945,480	\$ 7,506,682
Accounts receivable	366,082	435,364
Prepaid expenses	-	635
Deposits	182,464	-
Property and equipment, net	<u>51,529</u>	<u>281</u>
Total Assets	<u>\$ 7,545,555</u>	<u>\$ 7,942,962</u>

Liabilities and Net Position

Liabilities:		
Accounts payable	\$ 115,538	\$ 32,817
Grants payable	353,317	355,000
Deferred revenues	1,295,175	1,489,880
Accrued expenses	<u>195,787</u>	<u>98,946</u>
Total Liabilities	<u>1,959,817</u>	<u>1,976,643</u>
Net Position	<u>5,585,738</u>	<u>5,966,319</u>
Total Liabilities and Net Position	<u>\$ 7,545,555</u>	<u>\$ 7,942,962</u>

The accompanying notes are an integral part of the financial statements.

APPRAISAL SUBCOMMITTEE

Statements of Operations and Changes in Net Position

For the Years Ended September 30,

	<u>2009</u>	<u>2008</u>
Registry Fees	<u>\$ 3,071,106</u>	<u>\$ 3,196,769</u>
Operating Expenses:		
Personnel compensation and benefits	1,190,394	1,016,054
Contracted services	301,301	243,797
Rent, communications and utilities	273,243	234,619
Travel and transportation	177,196	127,522
Supplies and materials	45,728	15,437
Other expenses	14,898	24,586
Depreciation	14,093	1,824
Printing and reproduction	<u>10,329</u>	<u>14,235</u>
Total Operating Expenses	<u>2,027,182</u>	<u>1,678,074</u>
Other Expenses:		
Appraisal Foundation Grant	1,346,932	1,223,522
Appraisal Foundation Exam Grant	<u>77,573</u>	<u>106,411</u>
Total Other Expenses	<u>1,424,505</u>	<u>1,329,933</u>
Change in Net Position	(380,581)	188,762
Net Position, Beginning of Year	<u>5,966,319</u>	<u>5,777,557</u>
Net Position, End of Year	<u>\$ 5,585,738</u>	<u>\$ 5,966,319</u>

The accompanying notes are an integral part of the financial statements.

APPRAISAL SUBCOMMITTEE

Statements of Cash Flows

For the Years Ended September 30,

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Change in net position	<u>\$ (380,581)</u>	<u>\$ 188,762</u>
Adjustments to reconcile change in net position to net cash provided by (applied to) operating activities:		
Depreciation	14,093	1,824
Change in assets and liabilities:		
Accounts receivable	69,282	11,100
Prepaid expenses	635	(635)
Deposits	(182,464)	-
Accounts payable	82,721	5,407
Grants payable	(1,683)	2,356
Deferred revenues	(194,705)	28,105
Accrued expenses	<u>96,841</u>	<u>(24,346)</u>
Total Adjustments	<u>(115,280)</u>	<u>23,811</u>
Net Cash Provided by (Applied to) Operating Activities	<u>(495,861)</u>	<u>212,573</u>
Cash Flow from Investing Activity:		
Purchase of property and equipment	<u>(65,341)</u>	<u>-</u>
Net Increase (Decrease) in Fund Balances with U.S. Treasury	(561,202)	212,573
Fund Balances with U.S. Treasury, Beginning of Year	<u>7,506,682</u>	<u>7,294,109</u>
Fund Balances with U.S. Treasury, End of Year	<u>\$ 6,945,480</u>	<u>\$ 7,506,682</u>

The accompanying notes are an integral part of the financial statements.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements

September 30, 2009 and 2008

Note 1 - **Organization**

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council (the "Appraisal Subcommittee" or "ASC") 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. The purpose of this title is to provide that the 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. In accordance with Title XI of FIRREA, an appraiser must be registered to perform appraisals connected to federal transactions. ASC assesses each state an annual fee of \$25 per registered appraiser.

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 member agencies of the Appraisal Subcommittee include the Federal financial institutions regulatory agencies and the Department of Housing and Urban Development.

Title XI of FIRREA provided 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 - **Summary of Significant Accounting Policies**

Fund Balances with U.S. Treasury

Fund balances with the U.S. Treasury are the amounts remaining as of fiscal year-end from which the Appraisal Subcommittee is authorized to make expenditures and pay liabilities resulting from operational activities, except as restricted by law.

Accounts Receivable

Accounts receivable consists of amounts due to the Appraisal Subcommittee for registry fees. There was no allowance for doubtful accounts deemed necessary at September 30, 2009 and 2008.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements - Continued

September 30, 2009 and 2008

Note 2 - **Summary of Significant Accounting Policies - Continued**

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to ten years.

Deferred Revenues

Registry fees received in advance are deferred and recognized as earned during the applicable fee year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - **Property and Equipment**

Property and equipment consists of the following at September 30:

	<u>2009</u>	<u>2008</u>
Computer equipment	\$ 183,395	\$ 195,198
Furniture	<u>31,803</u>	<u>59,148</u>
	215,198	254,346
Less: accumulated depreciation	<u>163,669</u>	<u>254,065</u>
Net Property and Equipment	\$ <u>51,529</u>	\$ <u>281</u>

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements - Continued

September 30, 2009 and 2008

Note 4 - **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 0.8 percent of salary is contributed by the employee.

The Appraisal Subcommittee contributes up to 5 percent of base pay for participants in the Thrift Savings Plan under the Federal Employees Retirement System. Contributions by the Appraisal Subcommittee during fiscal years 2009 and 2008 for the Civil Service Retirement System and the Federal Employees' Retirement System plans aggregated approximately \$131,000 and \$100,000, respectively.

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 those 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 5 - **Appraisal Foundation Grant**

Title XI of FIRREA provides that amounts appropriated for, or collected by, the Appraisal Subcommittee be used to make grants to the Appraisal Foundation to help defray 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 grants to the Appraisal Foundation under which approximately \$12,547,000 was expended through September 30, 2009. As of September 30, 2009, the Appraisal Subcommittee has \$353,317 in undistributed grant funding available to the Foundation for the grant year ending December 31, 2009, which is recorded in grants payable.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements - Continued

September 30, 2009 and 2008

Note 6 - **Interagency Transactions**

The Appraisal Subcommittee has a Memorandum of Understanding with the U.S. General Services Administration (GSA) to share the costs of office space, which includes operating costs and real estate taxes. The payments are due monthly, as billed by the GSA. The Appraisal Subcommittee does not have a future commitment under this lease, as it is the ultimate responsibility of the GSA. Base rent expense totaled approximately \$245,600 and \$220,300 for the years ended September 30, 2009 and 2008, respectively.

In conducting its administrative operations, the Appraisal Subcommittee uses the services of various other Federal Agencies. The largest of the administrative service arrangements is with the U.S. General Services Administration for certain accounting and reporting functions, and processing of payroll and related benefits. Operating expenses of the Appraisal Subcommittee for fiscal years 2009 and 2008 include approximately \$59,000 and \$50,000, respectively, for these services.

Note 7 - **Concentrations and Contingencies**

Subsequent Events

Management has evaluated subsequent events through January 27, 2010, the date for which the financial statements were available for issuance.

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing
Standards***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Appraisal Subcommittee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Appraisal Subcommittee and is not intended to be and should not be used by anyone other than these specified parties.

O'Connors & Dew, P.C.
Certified Public Accountants

January 27, 2010

Appendix B

Statutory References

Title XI Real Estate Appraisal Reform Amendments [12 U.S.C. 3331-3351]

§ 1101. Purpose [12 U.S.C. 3331]

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.

§ 1102. Establishment of Appraisal Subcommittee of the Federal Financial Institutions Examination Council [12 U.S.C. 3310]

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:

§ 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.”

§ 1103. Functions of Appraisal Subcommittee [12 U.S.C. 3332]

- (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) [Omitted] terminated effective May 15, 2000, pursuant to § 3003 of Act Dec. 21, 1995, P.L. 104-66, which appears as 31 USCS § 1113 note (see also page 170 of House Document No. 103-7).
- (b) *Monitoring and reviewing Foundation.* The Appraisal Subcommittee shall monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

§ 1104. Chairperson of Appraisal Subcommittee; term of Chairperson; meetings
[12 U.S.C. 3333]

(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.

§ 1105. Officers and staff [12 U.S.C. 3334]

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.

§ 1106. Powers of Appraisal Subcommittee
[12 U.S.C. 3335]

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.

§ 1107. Procedures for establishing appraisal standards and requiring the use of certified and licensed appraisers. [12 U.S.C. 3336]

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.

§ 1108. Startup funding [12 U.S.C. 3337]

(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 [enacted Aug. 9, 1989]. Thereafter, expenses of the subcommittee shall be funded through the collection of registry fees from certain certified and licensed appraisers pursuant to section 1109 [12 USCS § 3338] or, if required, pursuant to section 1122(b) of this title [12 USCS § 3351(b)].

(b) *Additional funds.* Except as provided in section 1122(b) of this title [12 USCS § 3351(b)], 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.

(c) *Repayment of Treasury loan.* Not later than September 30, 1998, the Appraisal Subcommittee shall repay to the Secretary of the Treasury the unpaid portion of the \$5,000,000 paid to the Appraisal Subcommittee pursuant to this section.

§ 1109. Roster of State certified or licensed appraisers; authority to collect and transmit fees
[12 U.S.C. 3338]

(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 [enacted Aug. 9, 1989]; 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 Qualification Boards.

§ 1110. Functions of Federal financial institutions regulatory agencies relating to appraisal standards [12 U.S.C. 3339]

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.

§ 1111. Time for proposal and adoption of standards [12 U.S.C. 3340]

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 [enacted Aug. 9, 1989].

§ 1112. Functions of Federal financial institutions regulatory agencies relating to appraiser qualifications [12 U.S.C. 3341]

(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 [12 USCS §§ 3342, 3343], 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) *GAO studies.* The Comptroller General of the United States may conduct, under such conditions as the Comptroller General determines appropriate, studies on the adequacy and quality of appraisals or evaluations conducted in connection with real estate related financial transactions below the threshold level 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 Deposit 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 referred to in 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.

§ 1113. Transactions requiring the services of a State certified appraiser [12 U.S.C. 3342]

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.

§ 1114. Transactions requiring the services of a State licensed appraiser [12 U.S.C. 3343]

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

§ 1115. Time for proposal and adoption of rules [12 U.S.C. 3344]

As appropriate, rules issued under sections 1113 and 1114 [12 USC §§ 3342 and 3343] 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 [enacted Aug. 9, 1989].

§ 1116. Certification and licensing requirements [12 U.S.C. 3345]

(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 Qualification 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 Qualification Board of the Appraisal Foundation.

(c) *“State licensed appraiser” defined.* 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 Appraisal Subcommittee.* The Appraisal Subcommittee shall not set qualifications or experience requirements for the States in licensing real estate appraisers, including a de minimus [de minimis] standard. Recommendations of the Subcommittee shall be nonbinding on the States.

§ 1117. Establishment of State appraiser certifying and licensing agencies [12 U.S.C. 3346]

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.

§ 1118. Monitoring of State appraiser certifying and licensing agencies [12 U.S.C. 3347]

(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.

§ 1119. Recognition of State certified and licensed appraisers for purposes of this title [12 U.S.C. 3348]

(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.

§ 1120. Violations in obtaining and performing appraisals in federally related transactions
[12 U.S.C. 3349]

(a) *Violations.* Except as authorized by the Appraisal Subcommittee in exercising its waiver authority pursuant to section 1119(b) [12 USCS § 3348(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) [12 USCS § 3350(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 [12 USCS § 1818(i)(2) or 1786(k)(2)], 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 [5 USCS §§ 551 et seq.].

§ 1121. Definitions [12 U.S.C. 3350]

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 Corporations, 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 [12 USCS § 1813] or an insured credit union as defined in section 101 of the Federal Credit Union Act [12 USCS § 1752].

(8) *Chairperson.* The term “Chairperson” means the Chairperson of the Appraisal Subcommittee selected by the council [Council].

(9) *Foundation.* The terms “Appraisal Foundation” and “Foundation” means [mean] 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.

§ 1122. Miscellaneous provisions
[12 U.S.C. 3351]

(a) *Temporary practice.*

(1) In general. 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—

- (A) the property to be appraised is part of a federally related transaction,
- (B) the appraiser’s business is of a temporary nature, and
- (C) the appraiser registers with the appraiser certifying or licensing agency in the State of temporary practice.

(2) *Fees for temporary practice.* A State appraiser certifying or licensing agency shall not impose excessive fees or burdensome requirements, as determined by the Appraisal Subcommittee, for temporary practice under this subsection.

(b) *Reciprocity.* The Appraisal Subcommittee shall encourage the States to develop reciprocity agreements that readily authorize appraisers who are licensed or certified in one State (and who are in good standing with their State appraiser certifying or licensing agency) to perform appraisals in other States.

(c) *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 [Council’s] functions under this title.

(d) *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.

(e) *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.

(f) *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 [enacted Aug. 9, 1989], 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 [enacted Aug. 9, 1989].

§ 1123. Emergency exceptions for disaster areas
[12 U.S.C. 3352]

(a) *In general.* Each Federal financial institutions regulatory agency may, by regulation or order, make exceptions to this title, and to standards prescribed pursuant 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 [42 USCS § 5170], 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 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 and Emergency Assistance Act [42 USCS § 5170], has determined that a major disaster exists.

**Department of Housing and Urban
Development Reform Act of 1989 § 142
FHA Operations [12 U.S.C. 1708(e)]**

(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 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 C

2009 Annual Compliance Review Findings

Requirement/Guidance Areas	24 States Reviewed for Compliance in 2009	27 States Reviewed for Compliance in 2008
	Non-compliance Occurrences by area for 2009	Non-compliance Occurrences by area for 2008
[State's] Statutes, Regulations, Policies and Procedures:	3	15
Temporary Practice	2	9
Timely National Registry Submissions	2	5
Application Process	12	8
Reciprocity	0	0
Education	0	1
Enforcement	5	17
	12–In Substantial Compliance	5–In Substantial Compliance
	11–Not In Substantial Compliance	22–Not In Substantial Compliance
	1–Not In Compliance	0–Not In Compliance

The table above documents the 2008 and 2009 Compliance Review findings by requirement and area of guidance.

Appendix D

National Appraiser Credential License and Certification Statistics

Note: These statistics reflect the number of appraiser credentials not the number of appraisers. It is not uncommon for the same appraiser to hold multiple State credentials.

National Registry Credentials—Year-End 1992–2009

Year-End	Certified General	Certified Residential	Licensed	Total
1992	23,133	19,772	18,406	61,311
1993	30,348	26,163	27,316	83,827
1994	32,450	29,949	17,960	80,359
1995	32,305	32,733	19,375	84,413
1996	31,628	33,141	16,984	81,753
1997	32,519	32,161	17,371	82,051
1998	34,485	35,697	15,287	85,469
1999	34,082	34,237	18,676	86,995
2000	34,609	34,702	19,755	89,066
2001	33,246	34,401	19,837	87,484
2002	32,959	35,233	21,261	89,453
2003	33,394	37,418	21,575	92,387
2004	33,725	40,726	25,095	99,546
2005	34,074	43,327	28,185	105,586
2006	34,812	46,701	29,921	111,434
2007	36,881	54,177	30,286	121,344
2008	37,851	56,704	25,931	120,486
2009	38,061	57,253	21,434	116,748

