



776 G Street, NW, Suite 850B • Washington, DC 20006

1990
ANNUAL REPORT

APPRAISAL SUBCOMMITTEE
OF THE
FEDERAL FINANCIAL INSTITUTIONS
EXAMINATION COUNCIL

PRESENTED TO THE U.S. CONGRESS
ON
JANUARY 31, 1991



1776 G Street, NW, Suite 850B • Washington, DC 20006

January 31, 1991

The Honorable Thomas S. Foley
Speaker of the Rouse of Representatives
Room H-204, The Capitol
Washington, D. C. 20515

Dear Mr. Speaker:

Pursuant to the provisions of section 1103 of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (P.L. 101-73, 103 Stat. 183), (FIRREA), I am pleased to submit the 1990 Annual Report of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council.

BACKGROUND

The Appraisal Subcommittee (Subcommittee) was created on August 9, 1989 pursuant to Title XI of FIRREA. The purpose of Title XI 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." The Subcommittee was established within the Federal Financial Institutions Examination Council (FFIEC) to provide oversight of the real estate appraisal process as it relates to federally related real estate transactions.

The Subcommittee is composed of six members, each of whom is designated by the head of their respective agencies. Each of the five financial institution regulatory agencies which comprise the FFIEC are represented on the Subcommittee. Pursuant to a December 15, 1989 amendment to 12 U.S.C. 1708 (section 143(3); P.L. 101-235) the sixth member is designated by the Department of Housing and Urban Development. Past and existing members of the Subcommittee are listed in Appendix A.

The principal responsibilities assigned to the Appraisal subcommittee by section 1103 of FIBREA are to:

- o monitor the requirements established by States for the certification and licensing of appraisers;
- o monitor the requirements established by the federal financial institution regulatory agencies and the Resolution Trust Corporation with respect to appraisal standards and the determination of which federally related transactions shall require the services of licensed or certified appraisers;
- o maintain a national registry of state certified and licensed appraisers;
- o monitor and review the practices, procedures, activities and organizational structure of the Appraisal Foundation; and,
- o transmit an annual report to Congress regarding the activities of the Appraisal Subcommittee during the preceding year.

APPRAISAL SUBCOMMITTEE ACTIVITY DURING 1990

1990 marked the first full year of the Subcommittee's operation. Generally, the Subcommittee met as a group on a weekly basis throughout the year. In addition, members met individually and in smaller groups with numerous interested parties, and attended a variety of meetings with representatives of the appraisal industry and others. Subcommittee activities and results relative to each of the assigned responsibilities cited above are as follows:

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.

In January of 1990 the Subcommittee developed and issued policy guidance addressing State certification issues. The full text of that policy statement was contained as an appendix to the Subcommittee's 1989 annual report. The guidelines were intended to 1) facilitate timely implementation of the provisions of Title XI of FIRREA, 2) promote the independence of the State appraisal regulatory function, 3) reduce conflicts of interest, and 4) address concerns regarding the issues of grandfathering and dual licensing.

The Subcommittee requested comments when it published the guidelines; 163 comments were received in response to this request from a variety of sources, including Members of Congress, state regulatory agencies and individual appraisers. Many commenters addressed issues such as the location within state government of the state regulatory agency that would monitor compliance with state statutes, the need for its independence, and the need for grandfathering existing appraisers into the system. Also, several commenters addressed the requirements needed for individuals obtaining either a license or certificate. As a result of the comments, the Subcommittee revised its position on the composition of a state board to allow for a majority of its members to be real estate appraisers (Appendix B). The Subcommittee let stand its positions on not allowing grandfathering of existing appraisers, and prohibiting mandatory dual licensing standards (i.e. to be a licensed or certified appraiser one would also have to belong to an appraisal organization, or have a real estate license, etc.).

The guidelines developed by the Subcommittee served as the basis for its comments on the statutes developed by the States to implement Title XI of FIRREA. As of December 31, 1990, 50 states or territories had forwarded copies of proposed or actual statutes to the Subcommittee for review. The Subcommittee has provided written comments and analysis to 35 of the jurisdictions and is actively reviewing the remainder. The vast majority of the States have made a good effort to write new or revise existing statutes that will be consistent with the requirements of Title XI of FIRREA.

The Subcommittee also issued two advisory opinions designed to assist the states and appraisers in interpreting the qualification standards for licensed and certified appraisers. In July, after discussions with the Subcommittee and others, including member organizations of the Appraisal Foundation, the Appraiser Qualifications Board of the Appraisal Foundation (AQB) issued criteria for residential and general classifications of real property appraiser.

The Subcommittee determined that the Qualifications Board's testing, experience, and educational criteria for the residential real property appraiser established meaningful standards which the states could use for licensing. The AQB's more stringent testing, experience, and educational criteria for the general real property appraiser were determined to be the minimum standards which the states could adopt for a certified appraiser.

In November, the Subcommittee issued its second advisory which further clarified its position on licensing criteria. Many comments had been received from rural areas asserting that a shortage of licensed appraisers would result because too few individuals in lesser populated areas possessed the requisite experience to meet the qualifications for residential real property appraiser. Comments were also received alleging that some jurisdictions might be interpreting the experience requirement too narrowly. The second advisory noted

that the requirements endorsed by the Subcommittee were but one structure that would be consistent with Title XI. It also stated that other requirements established by the states for licensing might also be consistent with Title XI. For example, the advisory noted that experience could be cumulative (not just obtained in the last year or two), and that states might allow transitional licenses to appraisers meeting the testing requirement and one of the other two requirements (either education or experience) and being required to fulfill all three requirements within a reasonable period of time (not to exceed two years). Also, it was pointed out that experience in other fields such as banking or real estate brokerage might provide the necessary experience if the work in these other fields encompassed the professional performance of or review of real estate appraisals. The complete text of both advisories are attached as Appendices C and D.

At year end, the issue of two classes of certified appraiser, residential and general (non-residential), was being debated by both the appraisal industry and the Subcommittee. Some in the industry support such a designation and many of the state statutes contemplate two classes of certification. The Subcommittee is aware that the Qualifications Board is preparing criteria for a certified residential appraiser and will carefully review any proposal. The Subcommittee is in the process of deciding whether to endorse such a structure and expects to issue an advisory early in 1991 to give the states as much time as possible in properly structuring their statutes.

The Appraisal Standards Board of the Appraisal Foundation issued revised Uniform Standards of Professional Appraisal Practice (USPAP) in April. USPAP represents generally accepted professional standards for real estate appraisal, appraisal review, real estate consulting, mass appraisal, personal property appraisal and business appraisal. Two integral parts of USPAP are its ethics provision and its competency provision. The ethics provision sets forth the requirements for integrity, objectivity, independent judgment, and ethical conduct. The competency provision places an immediate responsibility on the appraiser to refuse assignments for which the appraiser is not qualified (regardless of one's license or certification) prior to acceptance of the assignment. The Subcommittee worked with its member agencies to assure that applicable portions of IJSPAP became part of their appraisal regulations. Excerpts from USPAP dealing with federally related transactions (Standards 1 through 3) were published by the agencies in the Federal Register on December 31, 1990.

In December, at least two states and the American Bankers Association asked the Subcommittee to extend the July 1, 1991 implementation date for having a licensing/certification program in place as required by Title XI. The Subcommittee is reviewing all of the requests. However, the Subcommittee will closely monitor both the progress made by individual states as well as the impact on progress made by other parties and the Subcommittee itself before deciding whether to grant any extensions.

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 jurisdictions require the services of a State certified appraiser and which require the services of a State licensed appraiser.

Each of the Federal financial institutions regulatory agencies issued final regulations addressing which federally related transactions require the use of a licensed or certified appraiser in 1990. The Board of Governors of the Federal Reserve System has reopened its rule making process and is again considering comments on the appropriateness of a threshold amount (see discussion below). Final regulations were effective in the third quarter. In addition to identifying which transactions require an appraiser, they set out minimum standards for performing appraisals, and distinguish those appraisals requiring the services of a State certified appraiser from those requiring a state licensed appraiser.

As mentioned previously, the regulations contemplate a threshold amount, below which the use of a certified or licensed appraiser is not required. This element of the regulations is controversial and appraisal groups have asked to have it eliminated. On the other hand, financial institutions, banks in particular, have asked for a higher threshold amount. The Subcommittee continues to monitor the progress being made by the agencies to develop similar regulations, as well as the content of the regulations themselves.

Use of licensed appraisers to perform smaller non-residential appraisals (below \$250,000) is allowed by the agency regulations. The Subcommittee will closely monitor the implementation of this portion of the regulations to assure that appraisals are performed by competent individuals and can be relied upon by lenders.

The agencies have been asked by some parties to reopen their rule making process and, in so doing, revise certain aspects of their regulations. The Subcommittee will maintain close contact with the agencies to assure that any reopening of comment periods and revisions to their regulations are consistent with Title XI, and to judge any impact the changes would have on the timely implementation of Title XI by the States.

While the threshold amount is still not settled for all of the agencies, the Subcommittee is satisfied that the requirements contained within the regulations are consistent with the requirements of Title XI of FIRREA. The Subcommittee will continue to monitor the agencies' application of the regulations to assure that the intent of Title XI is met.

3. Maintain a national registry of State certified and licensed appraisers who are eligible to perform appraisals in federally related transactions.

The Subcommittee is in the process of developing a system which would maintain pertinent data on individual appraisers and which would be compatible with most state systems. Data can then be compiled and shared with interested parties more readily. The Subcommittee contemplates maintaining the name, address, date of license or certificate, and expiration date of the license or certificate, of the appraiser. The Subcommittee is also monitoring the activities of the Appraisal Foundation in this regard as a portion of the Foundation's 1991 grant will be used to develop for its use a listing of licensed and certified appraisers. The Subcommittee will assess the possibility of tying into that system as a means of establishing a national registry.

As stated elsewhere in this report, Section 1119 of Title XI requires that, by July 1, 1991, all appraisals performed in connection with federally related transactions shall be performed only by individuals certified or licensed in accordance with Title XI requirements, unless that date is extended by the subcommittee for an individual state under provisions of the statute. The Subcommittee will take timely action to ensure that a national registry is established and maintained as required by Title XI.

4. Monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

The Subcommittee met several times during the year with representatives of the Foundation, its Qualifications Board and its Standards Board. As mentioned elsewhere in this report, much of the early discussion centered on what constituted meaningful qualifications for licensing and certification. The Subcommittee also participated in two conferences sponsored by the Foundation for State regulators.

In October, the Subcommittee approved its first grant to the Foundation in the amount of \$266,644. This grant was for the purpose of funding the Appraiser Qualifications Board's review and validation of state examinations. In December, the Subcommittee also approved a grant in an amount not to exceed \$687,556 to fund a portion of the 1991 operation of the Qualifications Board and the Standards Board, for the development of an appraiser roster, and to fund a portion of the expenses of the Foundation's Board of Trustees (those costs associated with the review and monitoring of the two Boards and USPAP Standards 1-3). The letter approving this latter grant is attached as Appendix E.

Considerable discussion has taken place regarding the membership of the Appraisal Foundation. While no new members were admitted in 1990, talks with interested *organization* have been held. In addition, grant funds for operations after June 30, 1991 will be distributed only if the Foundation can demonstrate *significant progress* in expanding its regular membership, and in seeking ways to involve unaffiliated appraisers in the work of the Foundation.

The Foundation or its Boards will make monthly presentations to the Subcommittee on the work that it is performing. In this way the Subcommittee can better monitor their activities. Additionally, auditors will regularly review the controls put in place for grant expenditures. These audit reports will be available to the Subcommittee.

5. 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.

The first such required report was delivered to the Congress on January 31, 1990 covering calendar year 1989. This report summarizes Subcommittee activities for calendar year 1990.

6. Other activities of the Appraisal Subcommittee.

In November, the Subcommittee approved its first annual budget for the fiscal year ending September 30, 1991. This budget also included estimates for operations through 1998. We believe that draws against the \$5 million *funding line* established by FIRREA will no longer be needed after fiscal year-end 1992 and that all advanced funds will be repaid by 1998. This is in line with the terms of the Subcommittee's borrowing authority. However, actual cash flow will depend *significantly upon* the timely and effective implementation of a system of channeling appraiser fees to the Subcommittee by the states.

Throughout 1990, the Subcommittee worked to retain a permanent staff. To date, staff work has been effectively carried out by individuals detailed from the Subcommittee's member agencies. The Subcommittee has also contracted with HUD for many of its administrative matters. As 1990 closed the Subcommittee had received applications from over 150 individuals for its four professional positions (Executive Director, Directors for Administration and Policies and Programs, and General Counsel). We expect to fill these positions early in 1991.

As mandated by Title XI, the Subcommittee completed a study for Congress on whether comparable sales and financing information is both sufficient and available to appraisers to enable them to properly estimate the value of property in connection with federally related transactions. In the August 1990 Appraisal Availability Study, the Subcommittee presented the following findings:

- o there is wide diversity among the states on the degree of information available to appraisers;
- o public disclosure of information is dependent upon the individual state's real estate transfer recording statutes and practices;
- o the quality of appraisals depends to a large degree on the quantity and quality of public information; and,
- o real estate appraisers have had to rely to a great degree upon private sources of information to complete appraisal assignments.

A copy of this study was provided to the Congress upon its completion and is available upon request.

At year-end the Subcommittee was in the process of completing a study on the feasibility and desirability of extending the provisions of Title XI to the appraisal of personal property, and by so doing, to personal property appraisers. Comments have been solicited and are being studied. The Subcommittee expects to issue a report in February, 1991.

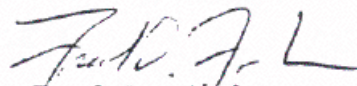
The composition of the Subcommittee also changed considerably over the year as three original members left the Subcommittee and the sixth member (HUD representative) joined the Subcommittee early in 1990. Much of the Subcommittee's success is attributed to the original members' hard work and ability to deal with building a new government agency from scratch. They established the beginnings of an effective framework for the Subcommittee's operation.

FUTURE PLANS OF THE APPRAISAL SUBCOMMITTEE

In 1991 the Subcommittee's will review the state regulatory structures and the states' efforts to establish a licensing and certification program by July 1, 1991. In this regard, the Subcommittee realizes that guidance to the states in the form of comments on their statutes, decisions on the appropriateness of two classes of certified appraiser, assessments of state criteria for licensing, and assessments of the need to extend the July 1 date must be well reasoned, and made in a timely fashion.

The Subcommittee members believe significant progress was made in 1990 in discharging the Subcommittee's responsibilities under Title XI, and fully expect this to continue into 1991. We received a considerable amount of cooperation from the staff of the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations. We are giving careful consideration to recommendations made in the status report presented by that Committee (House Report 101-981) to the Congress on November 14, 1990. The Subcommittee is working to implement many of the recommendations and appreciates the views that were offered therein. We look forward to continued cooperation from the Congress, the federal financial institution regulatory agencies, the States, the Appraisal Foundation, the appraisal industry and other affected parties in ensuring that the goals set forth in Title XI are met. 1991 will be a pivotal year for appraiser reform. The Subcommittee is confident that the requirements of Title XI will be met.

Sincerely,

A handwritten signature in dark ink, appearing to read "Fred D. Finke", with a large, stylized flourish extending to the right.

Fred D. Finke
Acting Chair

APPENDIX A

The members of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council and their terms of service are:

Acting Chair Fred D. Finke, Deputy Comptroller for Special Supervision, Office of the Comptroller of the Currency; September 1990 to present;

Timothy P. Hornbrook, Director, Department of Supervision, Office of Examination and Insurance, National Credit Union Administration; November 1989 to present;

Robert F. Mialovich, Assistant Director, Office of Policy, Division of Supervision, Federal Deposit Insurance Corporation; November 1989 to present;

Edwin W. (Ted) Baker, Chief, Valuation and Technical Support Branch, Department of Housing and Urban Development; January 1990 to present;

Diana Garmus, Executive Assistant, Supervision Policy, Office of Thrift Supervision; September 1990 to present;

Roger T. Cole, Assistant Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System; October 1990 to present;

Kevin M. Blakely, Former Deputy Comptroller for Special Supervision, Office of the Comptroller of the Currency; November 1989 to September 1990;

Mary C. Short, Former Deputy Director for Supervisory Programs, Division of Supervision Policy, Office of Thrift Supervision; November 1989 to September 1990;

Richard Spillenkothen, Deputy Associate Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve Board; November 1989 to October 1990.

APPENDIX B



1776 G Street, NW, Suite 850B • Washington, DC 20006 • (202) 357-0177 • FAX (202) 357-0191

February 28, 1990

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council today clarified and expanded aspects of its guidelines for state licensing and certification of real estate appraisers.

Since January 18, when the guidelines were released, the Subcommittee has received numerous comments and inquiries from states and other interested parties concerning the guidelines' limitations on the composition of state appraiser boards. The legislative history of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act indicates that states should adopt an organizational structure for implementing state appraiser licensing, certification and supervision functions that avoids potential conflicts of interest. With this objective in mind, the guidelines indicated that a state appraisal regulatory board should not be dominated by any industry or profession.

The Appraisal Subcommittee recognizes that a significant representation on the appraisal boards by members of the appraisal industry can help to ensure that the Boards have adequate expertise and knowledge to carry out their critical functions. The Subcommittee also notes that other

regulatory boards of many states are comprised of a majority of practitioners from their respective fields. In response to comments and inquiries received, and because many states are currently in process of enacting legislation to establish appraiser certification and licensing agencies, the Subcommittee has determined that an appraiser board that is comprised of a majority of individuals from the appraisal industry would not likely result in disapproval or rejection of a state's appraisal regulatory system based solely on that fact.

Rather, the Subcommittee has indicated that it intends to evaluate a state's system for certifying and licensing appraisers in its entirety, including the adequacy of safeguards to prevent conflicts of interest, before considering any adverse action against a particular state's appraisal regulatory system.

The Appraisal Subcommittee continues to believe that as a matter of sound public policy, state appraisal boards or commissions should adequately represent the broad public interest and that they should have meaningful public representation. In this regard, domination or majority control of appraisal boards by representatives of the real estate sales/brokerage, promotion, development, or financing industries -- or by their licensing or regulatory agencies -- would not be appropriate or consistent with the principles outlined in the Appraisal Subcommittee's guidelines and the legislative history of Title XI.

APPENDIX C



1776 G Street, NW, Suite 850B • Washington, DC 20006 (202) 357-0133 • FAX (202) 357-0191

Press Release

For immediate release

August 8, 1990

NOTE TO EDITORS

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council has sent the attached advisory on standards being developed by states for licensing and certifying real estate appraisers.

The Subcommittee advises states to employ standards that, at a minimum, are equivalent to those proposed by the Appraisal Foundation. The Subcommittee also points out that some states are utilizing appraiser designations that are inconsistent with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). The Subcommittee urges states to conform to the relevant provisions of FIRREA.

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The Appraisal Subcommittee of the Federal
Financial Institutions Examination Council

Advisory 90-1

On January 18, 1990, the Appraisal Subcommittee of the Federal Financial Institutions Examination Council issued guidelines for state certification and licensing of real estate appraisers. These guidelines are intended to help states move quickly to implement provisions contained in Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). FIRREA established the Appraisal Subcommittee and made it responsible for monitoring the requirements established by states for the licensing and certification of individuals who are qualified to perform appraisals pursuant to Title XI.

The Appraisal Subcommittee believes that appraisers subject to the licensing and certification provisions of Title XI must be qualified through appropriate testing and experience requirements. With regard to licensing criteria, the guidelines assert: "States should establish meaningful qualification standards for licensed appraisers, including testing, experience and educational requirements that are adequate to demonstrate knowledge and competency." With regard to certification criteria, Title XI defines a state certified appraiser as an individual who satisfies requirements that meet "the minimum criteria for certification issued by the Appraiser Qualification

Board of the Appraisal Foundation." The Appraisal Subcommittee is concerned that some states have adopted or may be contemplating licensing and certification criteria that are inconsistent with the letter or purposes of Title XI or the Appraisal Subcommittee's guidelines.

The Appraisal Subcommittee has reviewed the Appraisal Foundation's qualification criteria for the "Residential Real Property Appraiser" classification. It is the Appraisal Subcommittee's view that these qualification criteria satisfy the expectation for meaningful licensed appraiser standards set forth in the Subcommittee's guidelines. In addition, the Subcommittee wishes to point out that the criteria established by Title XI for state certified appraisers can be found in the Appraisal Foundation's standards for "Certified General Appraiser". Accordingly, the Subcommittee urges states to adopt licensing and certification qualification standards that are, at a minimum, equivalent to those approved and adopted by the Appraisal Foundation on July 24, 1990. Each state must assure that its licensing and certification requirements for individuals performing appraisals pursuant to the regulations of the federal depository regulatory agencies comply with Title XI and are consistent with Appraisal Subcommittee guidelines.

The Subcommittee also notes that some states have adopted appraiser titles or designations that are inconsistent with those contained in Title XI. In order to avoid confusion, the Subcommittee strongly encourages states to use the Title XI designations of "State Certified" and "State Licensed" appraiser.

APPENDIX D



1776 G Street, NW, Suite 850B • Washington, DC 20006 • (202) 357-0177 • FAX (202) 357-0191

Press Release

For immediate release

November 28, 1990

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council has sent the attached advisory on state criteria for licensing of real estate appraisers to interested parties.

The Subcommittee expresses its willingness to recognize on a transitional basis State licensed appraisers who meet either the experience or the education requirements established by the States if the individual appraisers satisfy the missing requirement within no more than two years after they are tested and provisionally licensed by the States. It is preferred that the issuance of transitional licenses be permitted only during the first years of a State's new appraiser licensing program.

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The Subcommittee also indicates its willingness to recognize real estate related experience, such as real estate lending or real estate brokering, as acceptable to qualify for a license, but only if that experience has included the actual performance or professional review of appraisals. The Subcommittee has earlier recommended to States a set of criteria reflecting meaningful standards for licensed appraisers and is reiterating its general support for the minimum criteria of the Appraiser Qualifications Board of the Appraisal Foundation as a "safe harbor" for licensing. However, the Subcommittee also acknowledges that licensing criteria are a matter for the States and that adoption of other licensing criteria is not necessarily inconsistent with Title XI. In exercising its oversight responsibilities, the Subcommittee will consider the reasonableness of a State's licensing criteria as part of its review of the State's total system.

The guidance provided in Advisories 90-1 and 90-2 is intended to contribute to consistency among the States. The Subcommittee supports action by the States that will further contribute to consistency of licensing standards. This is to insure that both temporary inter-state practice and permanent reciprocity are conducted on a sound basis.

November 28, 1990

THE APPRAISAL SUBCOMMITTEE OF THE FEDERAL
FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

ADVISORY 90-2

GUIDELINES REGARDING CRITERIA FOR STATE LICENSED APPRAISERS
UTILIZED IN FEDERALLY RELATED TRANSACTIONS

Introduction

This advisory expands and clarifies the August 8, 1990 Advisory 90-1 of the Appraisal Subcommittee as it concerns qualifications for a State licensed real estate appraiser to be utilized in conjunction with real estate related financial transactions conducted by regulated financial institutions.* Section 1118 of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 USC 3347) charges the Appraisal Subcommittee with the responsibility to monitor the licensing policies, practices or procedures of each State. Using procedures and criteria provided for in Section 1118, the Appraisal Subcommittee has the authority not to recognize licenses in a given State.

Section 1116(c) of FIRREA (12 USC 3345(c)) defines a "State licensed appraiser" as an individual who has satisfied the requirements for State licensing in a State or territory. There are at this time no Federal laws or regulations

(*). All other provisions, comments and criteria contained in Advisory 90-1 remain the position of the Appraisal Subcommittee to the extent not amended or clarified by this Advisory 90-2.

which set specific licensing criteria. In contrast to the licensing provisions, Section 1116(a) of FIRREA specifically defines the minimum criteria for "State certified real estate appraiser" as those issued by the Appraiser Qualifications Board (AQB) of the Appraisal Foundation.

In response to several requests, the Appraisal Subcommittee issued its Advisory 90-1 which in part stated that the criteria issued by the AQB for what it terms a "residential real property appraiser" would satisfy the Appraisal Subcommittee's belief that the States should adopt meaningful licensing standards. The Subcommittee continues to believe that these standards are consistent with the intent of Title XI but wishes to clarify that, in establishing this "safe harbor", it did not preclude States from adopting other licensing criteria. The criteria for the "residential real property appraiser" provide meaningful standards for the licensing of real estate appraisers but do not represent the only possible set of acceptable standards. Acceptable standards should continue to include meaningful but not overly restrictive education, experience and testing requirements. This may include permitting either the education or experience requirements to be met after passing a licensing test. The Subcommittee will review these requirements and their operation as part of its ongoing overall monitoring of a State's appraiser regulatory scheme. Also, in light of the temporary practice requirements of Section 1122 of FIRREA (12 USC 3351) and the possibility of inter-state practice or permanent reciprocity provisions, the Subcommittee supports actions by the States to develop consistent licensing requirements.

State Licensing Criteria

The following commentary on the AQB "residential real property appraiser" criteria is offered for States seeking to design a system of licensing that, in the Subcommittee's view, would be consistent with Title XI.

All persons should be required to pass a meaningful written test before they are licensed to perform appraisals for federally related real estate transactions. An acceptable State licensing test may be one issued or endorsed by the AQB, but in any case it should be one independently reviewed and validated by a qualified source. The Subcommittee believes the AQB's Uniform Examination Content Outline for Residential Real Property Appraiser represents a useful guide to the States in establishing examination requirements.

A transitional license valid for a strictly limited period of no more than two years could be issued to an applicant who has passed a test but who lacks either the educational or the experience requirements adopted by the State but not both. While Title XI and the Subcommittee do not impose any limitation on the adoption by the States of such a provision, the Subcommittee prefers that the issuance of transitional licenses be restricted to only the early years (end of 1993) of a State's appraiser licensing program and that thereafter an individual would have to satisfy all requirements before being licensed. The Subcommittee considers it appropriate that the license for an appraiser who has not satisfied all of the experience or education requirements should be identified in some manner to indicate that it is a transitional license and that it is valid for a stated limited period of time and cannot be extended. The Subcommittee believes that the State maintained registers of licensed

appraisers should identify individuals who hold transitional licenses and the expiration date of such licenses. This provision is desirable in order to avoid the utilization of unqualified appraisers by financial institutions in federally related transactions—which could subject such institutions to supervisory action. The Subcommittee reiterates that a licensed appraiser—transitional or otherwise—is nonetheless bound by the provisions of the Uniform Standards of Professional Appraisal Practice and, in particular, its competency provision.

Experience Requirement

The AQB experience requirement for the "residential real property appraiser" currently is two years (defined as a minimum of 2,000 hours) of appraisal experience which includes, but is not limited to:

"Fee and staff appraisal, ad valorem tax appraisal, review appraisal, appraisal analysis, real estate counseling, highest and best use analysis, feasibility analysis/study and teaching of appraisal courses."

The Appraisal Subcommittee believes that 2,000 hours is a reasonable standard to insure that licensed individuals have sufficient practical experience. The Subcommittee also notes that the time to achieve the necessary hours of experience may be treated as cumulative. The Subcommittee believes that a State, consistent with Title XI, might well recognize real estate related experience such as that of a real estate lending officer or a real estate broker as being acceptable for some or all of the experience requirement—but

only if such experience has included the actual performance or professional review of real estate appraisals. Each State is expected to adopt adequate procedures to document and verify the required experience for the licensing of appraisers.

Educational Requirement

The education requirement of the AQB for the "residential real property appraiser" is 75 classroom hours in certain specific subjects set forth in the AQB's published criteria. The AQB standards, in the Subcommittee's view, reflect meaningful education criteria for licensed appraisers. As indicated above, however, a State may establish such education requirements for licensed appraisers as it deems appropriate, so long as they are consistent with Title XI. The Appraisal Subcommittee will review the State established education requirements to ensure that they are meaningful, both as to the breadth of subject matter and the length of required study. The Subcommittee will examine course subject matter other than that listed by the AQB as a part of its overall review and monitoring of a State's system. The Subcommittee is of the view that 75 hours is a reasonable minimum educational requirement for licensed appraisers, especially in light of the potential for transitional provisions permitting it to be satisfied for a period of up to two years after obtaining a license. Consistent with the AQB criteria, the Subcommittee believes the educational requirement should be fulfilled in actual classroom time rather than through home study and correspondence courses.

APPENDIX E



1776 G Street, NW, Suite 850B • Washington, DC 20006

December 21, 1990

Mr. David W. Craig
Chairman
The Appraisal Foundation
1029 Vermont Avenue, N.W.
Washington, D. C. 20005

Dear Mr. Craig:

This is in response to the Appraisal Foundation's request for a grant in the amount of \$687,556. The substance of this request was contained in a November 26, 1990 letter to the Subcommittee from Mr. Bunton. Subject to the conditions contained below, the Appraisal Subcommittee is pleased to approve your request.

With regard to the work of the Appraisal Standards Board involving the Uniform Standards of Professional Appraisal Practices (USPAP), our approval is first conditioned upon funds provided by the grant being used only for work related to Standards 1 through 3. We note that \$8,220 is specifically budgeted for review of personal property standards (Standards 7 and 8). We are not approving these funds, or other funds not specifically broken out in other line items of your proposed budget, if the work is related to standards other than Standards 1 through 3.

As you know, Title XI of FIRREA requires the Subcommittee to maintain a registry of appraisers similar to the roster referenced in your grant request. While we view maintenance of a roster a legitimate function of the Foundation, please be advised that our decision to fund the costs associated with the roster's development does not reflect a decision to adopt the Foundation's roster as our registry. In that regard, we wish to have further discussions with Foundation staff to determine possible Subcommittee use of or access to the roster, and by so doing, use of future grant requests for this purpose.

Mr. David W. Craig
Chairman, The Appraisal Foundation
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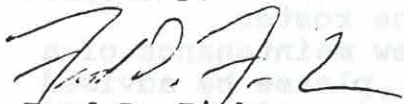
Our approval of your request also recognizes the involvement of the Board of Trustees in work performed by the Qualifications Board and the Standards Board. However, prior to advancing any of the \$78,985 you have requested for the activities of the Board of Trustees, we ask that you provide us with estimates on the total amount of funds the Foundation has budgeted for the activities of the Trustees.

Approval of the grant request is also conditioned upon significant progress being made by the Foundation in expanding its regular membership. For this reason, the initial expenditure of funds for the Qualifications Board and the Standards Board will equal one-half of the amounts requested; that is \$141,431 and 112,966 respectively (less any funds that would have been used for review of Standards 7 and 8). A decision on advancing the remaining funds will be made after the foundation has demonstrated the progress it has made in expanding its membership to all bona fide, professional appraisal organizations, in reviewing requirements that may pose unjustified obstacles to membership, and in seeking ways to involve unaffiliated appraisers in the work of the Foundation. In no event will the Subcommittee's decision be made later than June 30, 1991 in order to preserve the likelihood of uninterrupted funding for these two boards.

As was true with our approval of the previous grant request, our approval is for actual funds expended, not to exceed the approved amounts. We request monthly reports be made to the Subcommittee by Foundation staff beginning in January 1991 in order for the Subcommittee to monitor both the progress being made and the use of the grant funds. These reports will assist us in making decisions on the continued funding of certain Foundation work.

Should you have any questions regarding the terms of our approval of your grant request, or this letter, please do not hesitate to contact me. We on the Appraisal Subcommittee look forward to working with you throughout 1991.

Sincerely,



Fred D. Finke
Acting Chair
Appraisal Subcommittee

SUPPLEMENTAL INFORMATION

JANUARY 25, 1991 ADVISORY
ON RESIDENTIAL CERTIFICATION



1776 G Street, NW, Suite 850B • Washington, DC 20006

Press Release

For immediate release

January 25, 1991

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council has sent the attached advisory on state criteria for certification and licensing of real estate appraisers to interested parties.

The Subcommittee expresses its willingness to accept a second classification of certified appraisers, "certified residential real estate appraiser", if individual states determine that it is necessary.

The Subcommittee expresses its continuing preference for a single class of certification, but subject to the following conditions, it is prepared to accept two classes of certification. First, the Appraiser Qualifications Board (AQB) of the Appraisal Foundation must develop and approve a classification standard for "certified residential real

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estate appraiser", second, an examination for this classification must be developed which may or may not be the same as that given for "certified general" appraisers. This examination must be validated by the AQB. Finally, the Appraisal Subcommittee must review and not disapprove the classification standard. The Subcommittee is advised that the AQB has issued exposure drafts of the existing classification standards with changes in titles of designations and a new "certified residential real estate appraiser" classification. The Subcommittee has not reviewed or commented on these changes at this time.

The Subcommittee advises the States which believe that it is necessary to create a new classification in order to appraise expensive or complex 1-4 family homes that procedures must be developed to assure that users of appraisal services are able to readily distinguish between the two classes of certified appraisers. This advisory is not intended to affect state decisions concerning "licensed appraisers".

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January 25, 1991

THE APPRAISAL SUBCOMMITTEE OF THE FEDERAL
FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

ADVISORY 91-1

GUIDELINES REGARDING TWO CLASSES OF CERTIFICATION

Introduction

This advisory modifies the Guidelines Regarding State Certification and Licensing of Appraisers issued for comment by the Appraisal Subcommittee (hereinafter "Subcommittee") of the Federal Financial Institutions Examination Council on January 18, 1990. Section 1118 of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3347) (FIRREA) charges the Subcommittee with the responsibility to monitor the certification and licensing policies, practices or procedures of each State.

Section 1116(a) of FIRREA (12 U.S.C. 3345) defines "State certified real estate appraiser" to mean 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 (AQB) of the Appraisal Foundation. The language of Title XI has previously

been interpreted by the Subcommittee to indicate that States should have a single standard for certified appraisers, and that specialization in appraisal practice (residential, commercial, office, etc.) could be achieved after achieving certification. The Subcommittee has offered guidance to states based upon this interpretation, i.e. "the Subcommittee encourages the State to adopt just a 'State licensed' and a 'State certified' category consistent with Title XI". The Subcommittee suggested in advisory 90-1 that it believed the AQB classification entitled "residential real property appraiser"¹ was appropriate for licensed appraisers and the AQB classification "general real property appraiser"² was appropriate for certified appraiser. The Subcommittee still believes that in most States this interpretation is appropriate.

It has been brought to the attention of the Subcommittee, and of the AQB, that in a few states with a significant quantity of very high priced single family homes this interpretation of the Title XI'³ requirement that a State certified appraiser be used to perform appraisals for all real estate transactions having a

¹The AQB has proposed renaming this classification. In an exposure draft dated December 20, 1991 the proposed name for this classification is "State licensed real property appraiser".

²The AQB has proposed to rename this classification to "certified general real property appraiser".

³PL 101-73,130 Stat. 183[1989]:12 U.S.C. 3331-3351, specifically Sections 1113 paragraphs (1) and (2) (12 U.S.C. 3342)

value in excess of \$1,000,000 and for all complex 1-4 unit properties will disqualify a number of residential appraisers from performing appraisals for which they are uniquely qualified. Upon discussion with the AQB, the Subcommittee has been advised that this issue is of serious enough concern to the AQB that they have issued exposure drafts of appraiser qualification criteria (for) "certified residential" (new), "State licensed" (renamed from "residential real property appraiser"), and "certified general" (renamed from "general real property appraiser") classifications of real estate appraisers. While the Subcommittee has not reviewed or approved the exposure drafts, and cannot at this time endorse the proposed criteria, we are prepared to accept, from those states who believe it necessary, categories for "certified residential" as well as "certified general" real estate appraisers.

Qualifications Criteria

In order for a state to have two classifications of certified appraisers, it will be necessary that the AQB develop final qualification criteria for "certified residential" appraisers, and for an examination to be developed for "certified residential" appraisers, which may or may not be the same as that given for "certified general" appraisers. In addition, that examination must be validated by the AQB. Finally, all of the

above shall be reviewed by the Subcommittee to insure that the requirements of Section 1116(a) of FIRREA are met.

Implementation

In addition, it will be necessary for the state to develop and implement a procedure to insure that "certified residential" appraisers be so distinguished from "certified general" appraisers that a user of appraisal services for a federally related transaction, following the requirements of FIRREA and the appraisal regulations of the federal financial institutions regulatory agencies⁴ or the Resolution Trust Corporation, will be assured that an appraiser holds the appropriate type of certification. The Subcommittee is concerned that confusion may arise among affected institutions concerning this issue and will be extremely cautious in reviewing state schemes for implementing such provisions.

State Reviews

States which have received letters commenting upon legislation enacted or proposed should re-evaluate those comments in light of this advisory and the need in the state for appraisers to perform

⁴The federal financial institutions regulatory agencies are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

appraisals on 1-4 family properties valued in excess of \$1,000,000 or otherwise defined as complex. The Subcommittee continues to remind the States that in exercising its oversight responsibilities, it will review a State's overall regulatory scheme to determine compliance with Title XI.