

Briefing Cover Page



July 13, 2016

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Appraisal Subcommittee
*Federal Financial Institutions Examination
Council*

Briefing Agenda

Date: July 13, 2016
Time: Immediately following the ASC Open Session Meeting
Location: FRB, International Square
1850 K Street, NW
Washington, DC 20006

Briefing Topic(s)

Appraisal Foundation 2017 Grant Request

J. Park

Briefing Objective(s):

The Appraisal Foundation will outline projects that may be included in the FY17 Grant Request. This will be an action item on the September 14th ASC Open Session Meeting agenda.



THE APPRAISAL FOUNDATION

Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications

July 6, 2016

Mr. James Park
Executive Director
Appraisal Subcommittee
Federal Financial Institutions Examination Council
1401 H Street, N.W.
Suite 760
Washington, DC 20005

Dear Jim:

This is background information for our upcoming briefing with the Appraisal Subcommittee (ASC) scheduled for Wednesday, July 13.

As there has been some turnover among the members of the ASC, we thought it would be helpful to provide some historical data about the grants to The Appraisal Foundation (TAF). Attached is a graph that shows funding distributions for the three primary programs that have been supported by ASC grants over the past eight years. There has been a significant change over that period of time.

Our preliminary estimate for the 2016-2017 Title XI expenses of the Appraisal Standards Board (ASB) and the Appraiser Qualifications Board (AQB) as well as State Investigator Training is \$1,100,000.

Below is a brief summary of the funding that we will be seeking for the 2016-2017 grant year:

State Investigator Training: Estimate: \$300,000. We propose conducting three course offerings during the grant period, one for each of the three levels. In addition, we are requesting funds to update/rewrite the courses as they have not been significantly revised in several years.

Appraiser Qualifications Board: Estimate: \$475,000. The Board is currently considering possible alternatives to the current experience requirements for each

Mr. James Park
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of the three state licensure categories which range from 2,000 hours over 12 months for the Licensed Residential classification to 3,000 hours over 30 months for the Certified General classification. In addition, the Board is reviewing the college course requirements for the Certified Residential and Licensed Residential levels. There is significant interest in the marketplace in this activity as evidenced by the more than 600 comment letters the Board has received in response to two requests for public comment this year.

In addition, the Board will be updating the National Uniform Appraiser Licensing and Certification Examinations.

Appraisal Standards Board: Estimate: \$325,000. The Board is currently focusing on the communication of assignment results and the definition of an *appraisal report*. They are also clarifying the definitions of *assignment*, *intended use*, and *intended user*. In addition, the Board is proposing to make revisions to several Advisory Opinions (AOs). They have drafted and exposed AO-37, *Computer Assisted Valuation Tools*, to replace the current AO-18 on *Automated Valuation Models* due to technological changes in the marketplace. They will also be proposing revisions to AO-1, *Sales History*; AO-21, *USPAP Compliance*; and AO-31, *Assignments Involving More Than One Appraiser*. It is anticipated that any changes to USPAP will be adopted in February of 2017 and effective January 1, 2018.

We appreciate the financial support provided by the Appraisal Subcommittee over the years and look forward to our meeting with you on July 13 for a preliminary discussion on our grant request. In the meantime, please do not hesitate to call me should you have any questions about our proposal.

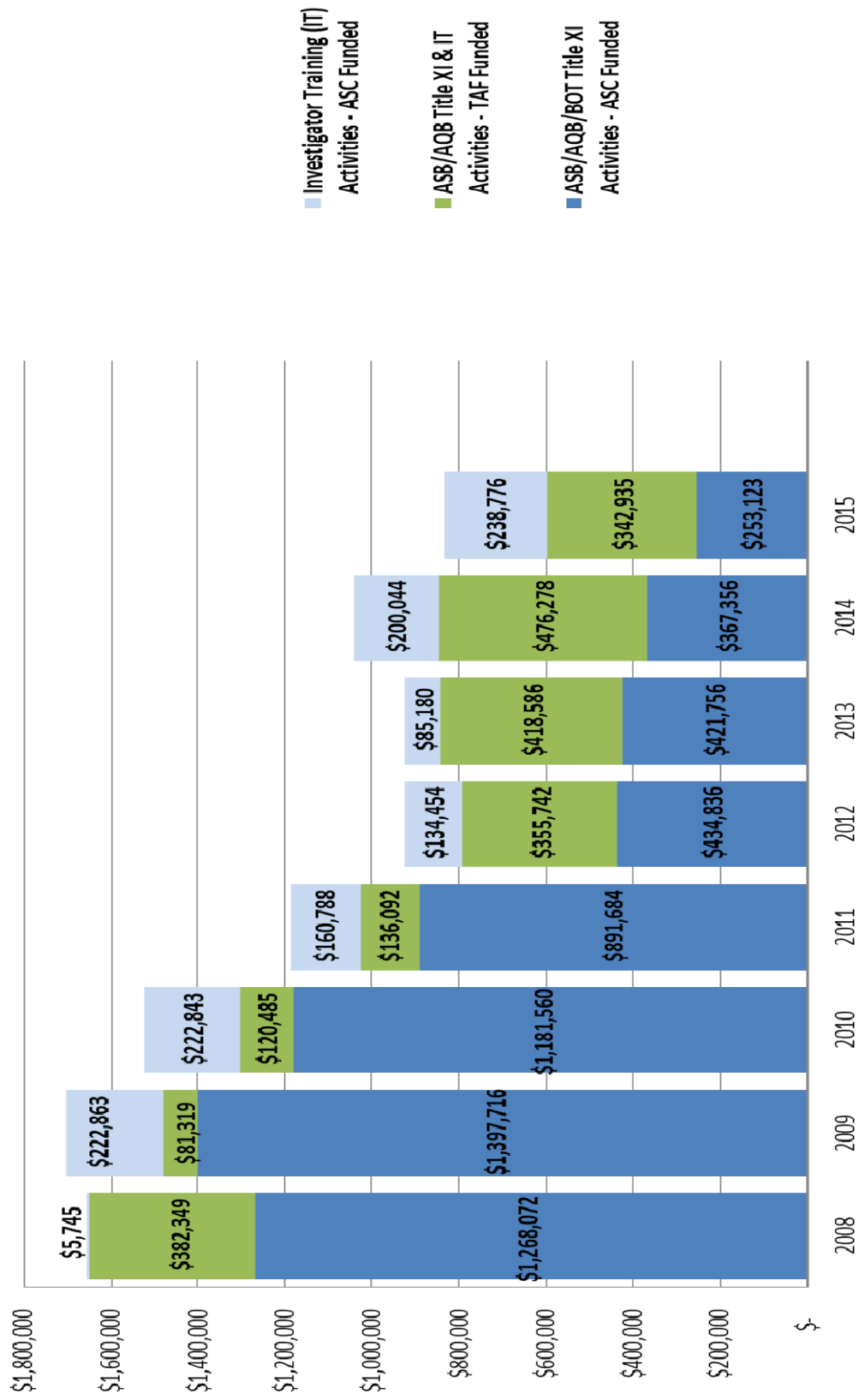
Sincerely,

A handwritten signature in black ink, appearing to read "David S. Bunton". The signature is fluid and cursive, with a long horizontal stroke at the end.

David S. Bunton
President

Attachment

ASC Grant and TAF Funding for ASB/AQB Title XI and Investigator Training Activities



**Foundation Financial Statements Summary
2011 - 2015**

	2011			2012			2013			2014			2015*		
		% of revenue	incr/(decr) over PY amt		% of revenue	incr/(decr) over PY amt		% of revenue	incr/(decr) over PY amt		% of revenue	incr/(decr) over PY amt		% of revenue	incr/(decr) over PY amt
Income															
ASC Grant (AQB/ASB/BOT)	\$ 811,654	18.95%	-29.35%	\$ 409,105	8.97%	-49.60%	\$ 421,756	9.29%	3.09%	\$ 324,715	7.97%	-23.01%	\$ 253,123	6.81%	-22.05%
ASC Grant (AQB/ASB Supplemental from PY)	8,687	0.20%	-47.07%	-	0.00%	-	43,400	1.06%	-	43,400	1.06%	-	-	0.00%	-
Investigator Training (State Grant)	160,788	3.75%	-27.85%	134,455	2.95%	-16.38%	85,180	1.88%	-36.65%	230,353	5.65%	170.43%	238,776	6.43%	3.66%
Investigator Training (State Grant) Supplemental from PY	71,343	1.67%	338.71%	25,730	0.56%	-63.93%	-	0.00%	-	-	0.00%	-	-	0.00%	-
Contracts (1)	-	0.00%	-	-	0.00%	-	102,467	2.26%	-	-	0.00%	-100.00%	53,600	1.44%	-
Publication Revenue (2)	2,750,057	64.22%	14.87%	3,216,353	70.51%	16.96%	3,005,771	66.23%	-6.55%	2,758,859	67.69%	-8.21%	2,474,618	66.59%	-10.30%
Investment Income	43,047	1.01%	-85.07%	362,047	7.94%	741.05%	458,458	10.10%	26.63%	206,352	5.06%	-54.99%	92,424	2.49%	-55.21%
Other sources (fees & courses) (3)	436,763	10.20%	-8.20%	413,821	9.07%	-5.25%	464,871	10.24%	12.34%	511,960	12.56%	10.13%	603,572	16.24%	17.89%
Total Income	\$ 4,282,339	100.00%	-6.14%	\$ 4,561,511	100.00%	6.52%	\$ 4,538,503	100.00%	-0.50%	\$ 4,075,639	100.00%	-10.20%	\$ 3,716,113	100.00%	-8.82%
Expenses															
Program Services		% of expenses			% of expenses			% of expenses			% of expenses			% of expenses	
AQB/ASB	\$ 1,077,853	37.94%	-4.35%	\$ 906,018	34.68%	-15.94%	\$ 858,232	28.66%	-5.27%	\$ 963,041	30.49%	12.21%	\$ 668,559	24.23%	-30.58%
Board of Trustees	624,234	21.97%	-26.62%	810,684	31.03%	29.87%	927,164	30.96%	14.37%	953,389	30.19%	2.83%	848,502	30.75%	-11.00%
Appraisal Practices Board	147,304	5.18%	190.59%	156,811	6.00%	6.45%	158,024	5.28%	0.77%	330,110	10.45%	108.90%	256,581	9.30%	-22.27%
Investigator Training	192,460	6.77%	-27.92%	140,957	5.40%	-26.76%	185,374	6.19%	31.51%	230,675	7.30%	24.44%	219,662	7.96%	-4.77%
Public Relations	-	0.00%	-100.00%	-	0.00%	-	-	0.00%	-	-	0.00%	-	-	0.00%	-
National Instructor courses	58,609	2.06%	0.91%	61,939	2.37%	5.68%	36,957	1.23%	-40.33%	75,175	2.38%	103.41%	32,428	1.18%	-56.86%
Subscriptions and publications	740,795	26.07%	29.76%	536,025	20.52%	-27.64%	748,836	25.01%	39.70%	507,269	16.06%	-32.26%	612,498	22.20%	20.74%
Alliance for Valuation Education	-	0.00%	-	-	0.00%	-	46,221	1.54%	-	71,852	2.28%	55.45%	64,774	2.35%	-9.85%
Special Projects	-	0.00%	-	-	0.00%	-	33,578	1.12%	-	26,579	0.84%	-20.84%	56,345	2.04%	111.99%
Total Program Services	\$ 2,841,255	100.00%	-4.02%	\$ 2,612,434	100.00%	-8.05%	\$ 2,994,386	100.00%	14.62%	\$ 3,158,090	100.00%	5.47%	\$ 2,759,349	100.00%	-12.63%
General and Administrative (G&A)	\$ 1,154,343	28.89%	18.76%	\$ 1,270,152	32.71%	10.03%	\$ 1,242,592	29.33%	-2.17%	\$ 1,420,633	31.03%	14.33%	\$ 2,064,785	42.80%	45.34%
Total Expenses	\$ 3,995,598		1.61%	\$ 3,882,586		-2.83%	\$ 4,236,978		9.13%	\$ 4,578,723		8.07%	\$ 4,824,134		5.36%
Net Income	\$ 286,741	6.70%	-54.50%	\$ 678,925	14.88%	136.77%	\$ 301,525	6.64%	-55.59%	\$ (503,084)	-12.34%	-266.85%	\$ (1,108,021)	-29.82%	120.25%

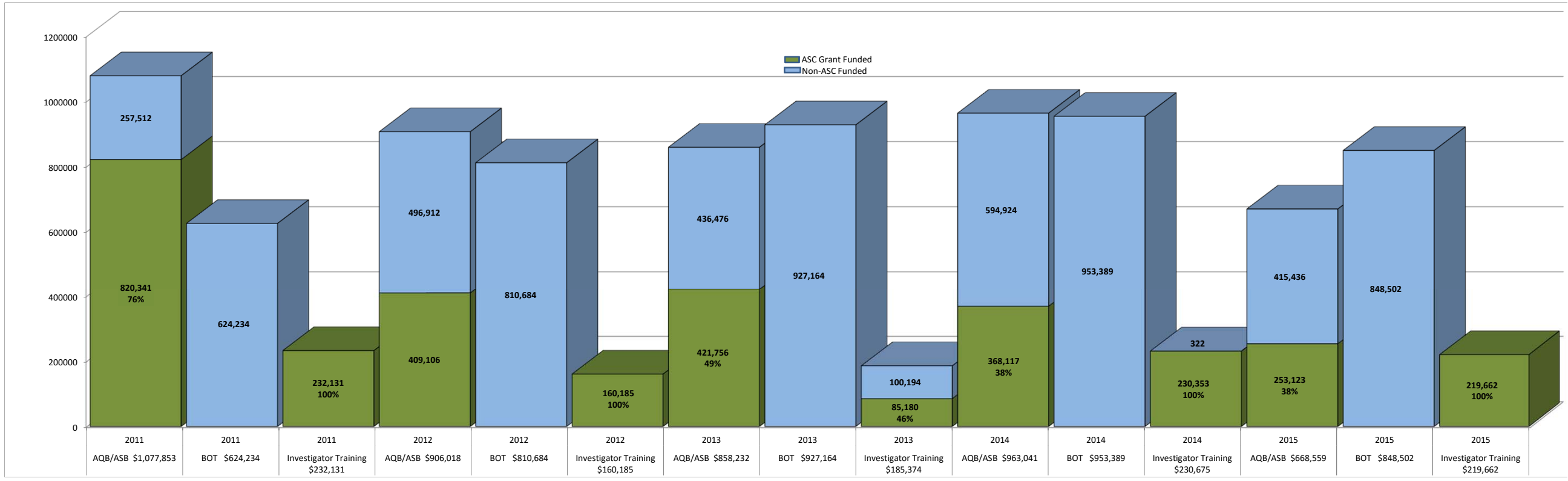
(1) Project contract with U.S. Dept. of the Interior

(2) The majority of publication revenue is based on sales of USPAP. USPAP Course fees are also included.

(3) Other sources of income include fees from the Course Approval Program, Sponsors, Industry Advisory Council, National Instructor Course and Management Services.

*The 2015 Foundation financial data is derived from their unaudited statements that project a \$1,108,021 loss for 2015.

The Appraisal Foundation 5 Year Grant History



- The graph above represents the ASC grants to the Foundation and the States (ITP) from 2011-2015.
- Each bar represents the Foundation's total expenditure for the AQB, ASB and BOT. The green portion represents the ASC grant along with the percentage of the total expense defrayed by the grant.
- The blue portion represents the Foundation's contribution. The total expense is shown at the bottom of each bar.
- As the grant has declined, the Foundation no longer requests funds for the BOT in order to maximize funding of the ASB and AQB. Since 2010, no grants funds have been requested or used for BOT activities.
- In response to the financial crisis, the ASC increased 2008-2010 grants to the Foundation in an effort to address appraisal concerns associated with the crisis. An influx of appraisers onto the National Registry resulting in increased income to the ASC over the prior years led to a surplus of ASC funds that made these elevated grants reasonable.

The Appraisal Foundation 2016 Budget Summary										
	January 1, 2016 - December 31, 2016									
Budget Category	AQB	ASB	APB	BOT	Publications	Instructor Program	Investigator Training	G&A	Alliance	Total 2016 Budget
Revenue:										
Grants	\$210,000	\$140,000					\$289,477			\$639,477
Publication Sales					\$3,203,150					3,203,150
Instructor Program Fees						\$55,985				55,985
Course Approval Program Fees	\$150,000									150,000
Sponsorship Fees								\$99,580		99,580
Industry Advisory Council Dues				\$96,000						96,000
Interest Income								57,000		57,000
Alliance Management Fees									\$0	0
Miscellaneous										
New Project Revenue										
Gain/Loss on Securities										
Total Revenue	\$360,000	\$140,000	\$0	\$96,000	\$3,203,150	\$55,985	\$289,477	\$156,580	\$0	\$4,301,192
Expense:										
Personnel (Direct Labor)	\$102,026	\$112,744	\$61,513	\$388,232	\$55,676	\$19,487	\$17,379	\$621,174	\$61,769	\$1,440,000
Fringe Benefits	0	0	0	0	0	0	0	372,700		\$372,700
Rent	0	0	0	0	0	0	0	206,400		\$206,400
Office Supplies	1,000	0	500	4,500	0	0	0	15,000		\$21,000
Telephone and Computer	0	0	0	0	0	0	0	57,288		\$57,288
Postage and Delivery	1,000	750	300	7,500	216,000	3,375	1,818	3,050		\$233,793
Printing	10,000	75	1,000	22,000	118,750	2,450	9,000	2,500		\$165,775
Equipment Rental	8,150	9,000	4,500	31,500	0	0	0	6,252		\$59,402
Equipment Repair and Maintenance	0	0	0	0	0	0	0	5,700		\$5,700
Consultants	175,100	117,050	69,500	32,000	10,000	17,250	44,000	5,000		\$469,900
Travel/Meeting Costs	101,000	66,000	86,000	267,040	0	14,500	217,280	25,000		\$776,820
Insurance	0	0	0	0	0	0	0	35,000		\$35,000
Legal	18,000	18,000	2,400	30,000	0	6,000	0	1,500		\$75,900
Dues, Subscriptions, Registrations	0	0	0	1,500	0	0	0	12,000		\$13,500
Accounting/Audit Fees	0	0	0	0	0	0	0	36,000		\$36,000
Subcontractor	50,530	0	0	0	0	0	0	0		\$50,530
Credit Card Discount Fees	5,000	0	0	0	70,000	0	0	0		\$75,000
Bad Debt Expense										
Depreciation	0	0	0	0	0	0	0	48,500		\$48,500
Contributions to Other Organizations	0	0	0	0	0	0	0	57,000		\$57,000
Replenish Long Term Reserves										\$100,000
Total Expenses:	\$471,806	\$323,619	\$225,713	\$784,272	\$470,426	\$63,062	\$289,477	\$1,510,064	\$61,769	\$4,300,208
Excess of Revenue Over Expenses	\$ (111,806.00)	\$ (183,619.00)	\$ (225,713.00)	\$ (688,272.00)	\$ 2,732,724.00	\$ (7,077.00)	\$ -	\$ (1,353,484.00)	\$ (61,769.00)	\$ 984.00

ASC Appraisal Foundation Grant Policy

[Revised June 2014]

Purpose:

To clarify the criteria used by the Appraisal Subcommittee (ASC) for assessing which of the activities of the Appraisal Foundation (Foundation) are eligible for grant funding and for determining the amounts of such grants that will be considered for approval.

Appraisal Foundation:

The Appraisal Foundation (Foundation)¹ is a private, not-for-profit corporation that sponsors the two independent boards that serve as the congressionally-authorized source of appraiser qualifications and appraisal standards: (1) the Appraiser Qualifications Board (AQB); and (2) the Appraisal Standards Board (ASB). The AQB establishes the *Real Property Appraiser Qualification Criteria* (AQB Criteria) as the minimum qualification requirements for appraisers. The ASB issues the *Uniform Standards of Professional Appraisal Practice* (USPAP), which provides industry standards for conducting real estate appraisals.

Statutory Authority:

Title XI² authorizes the ASC to “make grants in such amounts as it deems appropriate to the Appraisal Foundation, to help defray those costs of the [F]oundation relating to the activities of its Appraisal Standards and Appraiser Qualification Boards.” This policy implements the ASC’s grant-related authority and responsibilities under Title XI.

Annual Grant Proposal:

The Foundation annually submits grant requests to the ASC for its consideration. Since the ASC’s fiscal year ends on September 30th, grant requests from the Foundation must also be based on the ASC’s fiscal year and submitted to the ASC no later than August 1st of the preceding fiscal year for which the proposal is made. Foundation grant requests shall include the following:

- Business Plan for each Board describing:
 - issues prioritized for the Board’s review and planned action during the upcoming fiscal year, and
 - rationale for priorities and the means by which those priorities will be addressed.
- Overview of the most recent changes to AQB Criteria or USPAP, describing what effect those changes have had on appraisers, users of appraisal services, or regulators.

¹ Per section 1121 of Title XI, the terms "Appraisal Foundation" and "Foundation" mean the Appraisal Foundation established on November 30, 1987, as a not for profit corporation under the laws of Illinois (Title XI § 1121 (9), 12 U.S.C. 3350).

² Title XI § 1109 (b) (4), 12 U.S.C. 3338.

Eligibility:

As part of its review of each Foundation grant proposal, the ASC will evaluate whether amounts requested are for “grant-eligible activities.” For ASB, AQB, or Board of Trustees (BOT) expenses to be considered related to “grant eligible activities,” they must meet the following requirements:

ASB

- Relate to the development, interpretation, amendment or advancement of the USPAP associated with federally related transactions, or special projects related thereto
- Included in the annual approved grant award budget³

AQB

- Relate to the:
 - development, interpretation, amendment or advancement of the AQB Criteria, or special projects related thereto; or
 - maintenance of the National Uniform Examination
- Included in the annual approved grant award budget⁴

BOT

- Related to “grant eligible activities” of the ASB or AQB (e.g., expenses associated with the Oversight Committee of the BOT may be eligible for reimbursement if directly related to oversight of the ASB or AQB’s “grant eligible activities”).

In addition to the above criteria, the ASC will also evaluate whether the level of grant funding adequately maintains the ASC’s financial condition, including being consistent with its operating standards for targeted reserves.

Review of Grant Reimbursement Requests:

Approved grant funds are paid on an expense reimbursement basis. The ASC Chairperson has delegated authority to approve the requests with authority to re-delegate to the Executive Director. To receive reimbursement, the Foundation will submit a detailed request that includes a summary of the amount and types of expenses and supporting documentation. ASC staff will review each reimbursement request to ensure that expenses requested for reimbursement are related to the ASB, AQB, or BOT “grant-eligible activities” and that the expenses were included in the annual approved grant award budget. ASC staff will provide regular reports to the ASC that will include information about recent activities of the Foundation that are covered under the grant.

³ Special projects that were not in the approved budget may be considered by the ASC for approval.

⁴ *Id.*

The ASC annually employs an independent auditing firm to perform agreed upon procedures related to Foundation grants in accordance with standards established by the American Institute of Certified Public Accountants. The auditing firm also adheres to the following types of compliance requirements identified in OMB Circular A-122:⁵

- Ascertain that grant funds are expended for the activities allowed in the grant;
- Ascertain that costs charged to the grant are allowed under the grant agreement;
- Note whether specific service or expenditure levels are maintained;
- Ascertain whether minimum or maximum limits for specified services are met;
- Determine whether funds were obligated within the period of availability and obligations were liquidated within the required time period;
- Determine whether revenues are correctly recorded and disbursed in accordance with the grant/program requirements;
- Determine whether activities related to the grant occurred when the Foundation incurred the expenditure;
- Ascertain the costs charged to the meetings are in compliance with the grant agreement; and
- Ascertain that the costs charged to the grant for conference calls are in compliance with the grant agreement.

Additional Eligibility Requirements:

[Effective July 1, 2013]

Proposed revisions to USPAP and/or AQB Criteria must be accompanied by a description of the basis or rationale for the revisions and an analysis showing that the benefit(s) of issuing such revisions outweigh the additional costs to appraisers, users of appraisals, regulators, and others for related awareness and implementation.

⁵ OMB Circular A-122, "Cost Principles for Non-Profit Organizations," revised May 10, 2004. This Circular establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations.