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Appraisal Subcommittee

Federal Financial Institutions Examination Council

TO: Appraisal Subcommittee

FROM: Jim Park, Executive Director

DATE: October 30, 2019

RE: November 13, 2019 ASC Meeting Package

For the November 13th ASC Meeting, the following items are included in your meeting package. We do not anticipate holding a Briefing after the Meeting.

If you have any questions, please contact Lori Schuster at lori@asc.gov.

OPEN SESSION

- Agenda for ASC Open Session Meeting
- Reports
 - Chairman (oral report)
 - Executive Director (report attached)
 - Delegated State Compliance Reviews (oral report)
 - Grants Director (oral report)
 - Financial Manager (oral report)

- August 28th ASC Open Session Meeting Minutes

(If you would like a Word version of the minutes for editing, please let us know. Your edits can be submitted to Lori Schuster (Lori@asc.gov) by close of business, November 8th. A revised draft incorporating any edits received will be provided for the November 13th Meeting.)

- Grant Procedures Handbook
- Appraisal Foundation FY20 grant proposals

(ASC staff met with Foundation staff to review needed changes to their grant application. The Board will receive a staff recommendation memo for the revised Foundation grant application and critical components of the new ASC grant procedures handbook on Wednesday, November 6th.)

GRANT REIMBURSEMENTS

- June – August 2019 Appraisal Foundation grant reimbursement requests reviewed and approved by ASC staff

FYI - INFORMATIONAL ITEMS

- Revised ASC Member list showing changes made to FDIC's membership
- State Program Status Report as of October 30, 2019
- Appraiser Credential Report as of September 26, 2019
- Results of FY19 Annual Employee Survey
- Approved minutes of the May 8th ASC Open Session Meeting and July 9th Special Meeting
- Compliance Review Reports: Alaska, Idaho, Indiana, Iowa, Maine, Montana, New Mexico, Oklahoma, Virginia and Wyoming
- AMC Compliance Review Reports: Idaho, Iowa, Montana, New Mexico, Oklahoma, Virginia and Wyoming
- Letter from the Iowa Appraiser and AMC Board Director thanking Policy Manager Vicki Metcalf for her assistance
- Appraiser Qualifications Board First Exposure Draft – *Practical Applications of Real Estate Appraisal (PAREA)*
- Appraisal Standards Board (ASB) Concept Paper – *Evaluation Standards in USPAP*
- Press Release from the ASB regarding its October 18th Public Hearing on Evaluations

BRIEFING SUMMARY NOTES

- Summary Notes from the August 28th and September 23rd Briefings

Open Session Cover Page

November 13, 2019

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Appraisal Subcommittee
Federal Financial Institutions Examination Council

Agenda

Date: November 13, 2019
Time: 10:00 a.m.
Location: Partnership for Public Service
1100 New York Avenue NW
Suite 200 East, Room 3C
Washington, DC 20005
Metro Stop: Metro Center – 11th and G Street Exit

Open Session

Reports

- | | |
|--------------------------------------|---------------|
| • Chairman | A. Lindo |
| • Executive Director | J. Park |
| • Delegated State Compliance Reviews | A. Bohorfoush |
| • Grants Director | M. Abbott |
| • Financial Report | G. Hull |

Action and Discussion Items

- | | |
|---|------------------------------|
| • August 28, 2019 Open Session Minutes | A. Lindo |
| • Grant Procedures Handbook | M. Abbott |
| • Appraisal Foundation FY20 Grant Proposals | D. Bunton - TAF
M. Abbott |



Appraisal Subcommittee
Federal Financial Institutions Examination Council

TO: Appraisal Subcommittee
FROM: Jim Park, Executive Director
DATE: October 30, 2019
RE: Quarterly Executive Director Report

North Dakota Temporary Waiver

Claire Brooks and I will be attending a meeting the North Dakota Department of Financial Institutions is hosting on November 6, 2019, in Bismarck, ND. Members and staff of the North Dakota Real Estate Appraiser Qualifications & Ethics Board also plan to attend. I will update the Board on the meeting during the November 13 ASC Meeting.

As you know, along with the waiver of appraiser credentialing requirements for commercial FRTs below \$1,000,000, the ASC approved a temporary waiver of appraiser credentialing requirements for appraisals of FRTs under \$500,000 for 1-to-4 family residential real estate transactions throughout the State of North Dakota for a period of one year unless the federal banking agencies issue a rule increasing appraisal exemption threshold limits for residential real estate transactions, in which case the residential waiver will terminate 60 days after the effective date of that threshold increase.

The federal banking agencies increased the residential threshold to \$400,000, effective October 9, 2019. Therefore the residential waiver ends December 9, 2019. Staff is currently working on a draft notice of the residential waiver termination for publication in the *Federal Register*.

Temporary Waiver FAQs and Congressional Inquiry

The Frequently Asked Questions (FAQs) on Temporary Waivers and responses to the questions from Congress are making their way through the interagency editing process. Our goal is to have both completed by the end of October.

ASC Grants

The initial stages of an ASC Grants Handbook are included on the agenda for the ASC's review and approval. The draft handbook and staff recommendations regarding the FY20 grant requests will be provided to the Board by next Wednesday, November 6.

Pending Legislation

H.R. 3619 – The Appraisal Transparency Act of 2019 would:

- Add trainee appraisers to the Appraiser Registry
- Expand the ASC’s grant making authority to include nonprofit organizations and institutions of higher education in partnership with a State appraiser regulatory agency
- Allow for the adjustment of AMC fees by the ASC
- Require disclosure of AMC fees and fees paid to the appraiser on loan settlement documentation
- Add the Department of Veterans Affairs as a member agency to the ASC

The bill passed the House in September and was received by the Senate and referred to the Committee on Banking, Housing, and Urban Affairs.

It is my understanding that the Senate has an interest in these modifications to Title XI. However, they may be less likely to consider the fee disclosure requirements.

Regulatory Affairs Specialist

An offer has been extended and accepted by an applicant. We hope to have her fully on board by the November ASC Meeting.

Appraisal Foundation Monitoring and Review

Appraisal Standards Board (ASB)

The ASB issued an exposure draft on September 3 to explore the idea of adding evaluation standards to the *Uniform Standards of Professional Appraisal Practice* and followed that with an October 18 public hearing in Washington, DC on the concept. The ASB convened three panels of industry participants representing professional appraisal and banking organizations, State appraisal regulators and lenders. There were over 100 attendees at the meeting and several hundred on the livestream broadcast. The ASB discussed this concept at length with participants at the October 18-21 AARO Conference in Washington, DC.

My sense is that there is confusion among practitioners, regulators and lenders on the topic of evaluations. Varying and changing State laws only adds to the complexity of the issue. Public opinion seems to be generally split on whether the ASB should move forward and how if they do. I do not believe they have engaged the federal banking agencies on the topic, but I have encouraged them to do so.

Appraiser Qualifications Board (AQB)

The AQB and Foundation staff continue to focus on the Practical Applications in Real Estate Appraisal (PAREA) project which has the objective of lessening the shortage of qualified supervisory appraisers and improving the overall appraiser training experience. The First

Exposure Draft was released September 5 and is included in the FYI section of your meeting package. In my last report, I indicated that the Foundation had made it clear they did not want ASC grant funding for the project. As many of you heard in the October 21 Briefing, they appear to have reconsidered that position and may now request ASC support.

IT Systems Update

The Network Backup project is nearing completion. The required hardware and software were installed at our server facility in Silver Spring, Maryland in mid-August, including a Network upgrade. Cloud storage has been sourced and data will be transferred in early November which will finalize the network backup project.

2019 ASC Roundtable

The third ASC Roundtable will take place February 10, 2020, and once again will take place at the OCC. Board members should have received a recent save the date announcement.

Other Staff Attended Meetings and Presentations

- October 15 Tennessee Appraisers and Bankers Conference - Nashville, TN
- October 17-18 ASB meetings – Washington, DC
- October 18-21 AARO Conference – Washington, DC

**APPRAISAL SUBCOMMITTEE
OPEN SESSION MEETING MINUTES
AUGUST 28, 2019**

LOCATION: Partnership for Public Service
1100 New York Avenue NW, Suite 200 East, Washington, DC 20006

ATTENDEES

ASC MEMBERS: CFPB – John Schroeder
FDIC – Marianne Hatheway
FHFA – Robert Witt
FRB – Art Lindo
NCUA – Tim Segerson
OCC – Richard Taft

ASC STAFF: Executive Director – Jim Park
Deputy Executive Director – Denise Graves
General Counsel – Alice Ritter
Grants Director – Mark Abbott
Financial Manager – Girard Hull
Attorney-Advisor – Ada Bohorfoush
Management and Program Analyst – Lori Schuster
Administrative Officer – Brian Kelly
Policy Manager – Claire Brooks
Policy Manager – Neal Fenochietti

OBSERVERS: Appraisal Foundation – Dave Bunton
Appraisal Foundation – Edna Nkemngu
CFPB – Orlando Orellano
CFPB – Paul Sanford
DTCC – Ted Serafini
FDIC – Michael Briggs
FDIC – Suzy Gardner
FRB – Carmen Holly
NCUA – Rachel Ackmann
OCC – Kevin Lawton
OCC – Joanne Phillips
OCC – James Rives
Veterans Affairs – James Heaslet

The Meeting was called to order at 10:00 a.m. by Chair A. Lindo, who called into the Meeting. He requested that Vice-Chair R. Taft oversee the Meeting.

REPORTS

- **Chairman**

A. Lindo welcomed visitors and provided an update on current ASC activities. The ASC issued a Final Order on the North Dakota Temporary Waiver Request on August 7th. ASC staff will contact the North Dakota Department of Financial Institutions (DFI) and the North Dakota Real Estate Appraiser Qualifications and Ethics Board (Appraisers Board) for an update on solutions being considered to address scarcity and delay. The ASC is evaluating policy improvements to better enhance transparency and standardization in the waiver request process.

The ASC staff is working towards establishing a more robust grants program and is developing a Grants Handbook (Handbook) which will be discussed and voted on at the ASC's November 13th Meeting.

- **Executive Director**

J. Park updated the ASC on recent staff activity.

- As stated by A. Lindo, the Final Order regarding the Temporary Waiver was published in the *Federal Register* on August 7th. ASC staff contacted the DFI and the Appraisers Board for an update and offered ASC staff assistance.

- Regarding staffing, he and D. Graves are continuing interviews for the Regulatory Affairs Specialist position and hope to have a selection made shortly. M. Abbott's detail to the ASC expires on September 30th.
- The AMC Rule established August 10, 2018, as the date after which an AMC may not provide AMC services for federally related transactions unless they are registered by the State or are a Federally regulated AMC. Twenty-six States requested a one-year extension and were approved by the ASC and FFIEC. Those extensions expired on August 10, 2019. Currently, all States, except for the Territories, are registering AMCs.
- Approximately 44 States are using the Unique Identifier. He and B. Kelly spoke with Illinois last week and they will work with B. Kelly to implement it in their State.
- J. Park requested D. Bunton update the ASC on recent Appraisal Foundation (Foundation) activities:

D. Bunton said the Appraiser Qualifications Board (AQB) will release an Exposure Draft on September 5th regarding the Practical Applications in Real Estate Appraisal project. The next AQB Meeting will be held in St. Petersburg, FL on November 1st. The AQB plans to hold Meetings in February and April of 2020 to refine the Exposure Draft.

The Appraisal Standards Board (ASB) will release the 2020-21 edition of USPAP on October 1st. The ASB will release a Concept Paper regarding Evaluation Standards in USPAP on September 3rd and hold a webinar on September 10th. They are also

discussing new standards on developing and reporting evaluations. The ASB will meet on October 18th and will accept public comment from stakeholders. M.

Hatheway asked if evaluations should meet certain standards. D. Bunton responded that it varies by State. If a State defines an evaluation as an opinion of value, that falls under the State Appraiser Board's jurisdiction. R. Taft asked if the Foundation has been in contact with States regarding this issue. D. Bunton responded "yes" and thanked the ASC for their time.

- J. Park continued with his report. ASC staff is working with staff from the FRB Center for Learning Innovation to facilitate the ASC Roundtable (Roundtable). He asked ASC members for suggested topics for the Roundtable. He suggested that a discussion on how data is used could be the lead topic of the Roundtable. A. Lindo asked if this would include data quality and integrity. J. Park responded yes, as well as how data is updated and sources of data that are considered reliable. J. Schroeder suggested asking previous Roundtable participants to provide discussion items.
- An update of HR 3619 entitled Appraisal Reform Act of 2019 was requested by R. Witt. J. Park noted that this is a bipartisan bill that appears to have support in the House, and it is his understanding that a companion bipartisan bill is being drafted in the Senate to amend Title XI to provide the ASC with the authority to modify annual registry fees for AMCs, maintain a national registry of trainees, and expand grants to the States. The House Bill may include a provision to add a designee of the Department of Veterans Affairs to the ASC and amend RESPA by adding a requirement to disclose appraisal fees

separately from other fees. J. Park noted that appraisers want their fee disclosed separately from the AMC fee. R. Taft asked if this would be per transaction and J. Park responded “yes.” R. Witt asked if the ASC has an even number of members, how that could affect voting. J. Park said that the Rural Development section of USDA may be asked to add a member as well which would give a total of nine ASC members. J. Park said there is also discussion of allowing FHA to add Licensed appraisers to the Appraiser Roster which could help rural markets.

- **Delegated State Compliance Reviews**

A. Bohorfoush reported on State Appraiser Program Compliance Reviews completed pursuant to delegated authority since the ASC’s May 8th Meeting. Seven State Appraiser Program Compliance Reviews were finalized and approved by the Executive Director under delegated authority. Kentucky, Mississippi and Nebraska were awarded a Finding of “Excellent” and all will remain on a two-year Review Cycle. Delaware, District of Columbia, Florida and South Carolina were awarded a Finding of “Good” and will all remain on a two-year Review Cycle.

A follow-up Review of the Massachusetts Appraiser program was conducted. They have made progress in 4 of the 5 areas that were out of compliance in 2018. However, 2 of the areas of concern from 2018 are now out of compliance. ASC staff is requiring Massachusetts to provide written plans to address these issues.

There were three State AMC Program Compliance Reviews finalized and approved by the Executive Director under delegated authority. Nebraska and South Carolina were awarded a Finding of “Excellent” and both will remain on a two-year Review Cycle. Delaware was awarded a Finding of “Good” and will remain on a two-year Review Cycle.

R. Taft requested the ASC staff to create a chart showing how States have performed over the past 3-4 years as a whole, rather than individually.

- **Grants Report**

M. Abbott provided an update on the Grants Program. A Handbook is being developed and will include the process and policies for awards, oversight, auditing and reporting. It will encompass the grants and cooperative agreements. Funds will be provided either through the procurement or grant process. The ASC will need to approve the Handbook. The Handbook will be posted on the ASC website and available under the Freedom of Information Act. As the Handbook will be an internal document, public comment is not required. M. Hatheway asked if the ASC would be able to review a draft of the Handbook in advance of the November 13th ASC Meeting. M. Abbott responded “yes.” J. Park noted that if the ASC is not available for a Briefing, one-on-one Meetings can be scheduled with ASC members. A. Lindo noted that the policies in the Handbook should be prioritized. M. Abbott said that the Handbook will expand on what the ASC is already doing and make the grants program more robust. The ASC will also need to contract with an outside auditing firm or an Inspector

General's Office from another Federal agency to perform audits of grants including those awarded to the Foundation. He added that Indirect Costs Rates for Foundation grants will have to be approved on an annual basis.

- **Financial Manager**

G. Hull reported on grant reimbursement requests processed since the May 9th ASC Meeting. The reimbursements, totaling \$126,182, covered the period of January through May for costs of the ongoing work of the AQB and the ASB. Other expenses included an AQB Meeting and ASB Meeting. Thus far, \$203,837 of the \$350,000 Foundation grant has been expended with a remaining balance of \$146,163. Grant expenses for the Investigator Training Program (ITP) for January through May totaled \$88,539 and overall expenditures of \$93,987. This leaves a balance of \$184,013 of the \$278,000 ITP grant. R. Taft noted that the FY19 financial statement shows 50% of the grants have been expended. G. Hull responded that funds are accrued monthly and is not the actual amount reimbursed. A. Lindo asked if the grants will be fully expended in FY19. J. Park responded that the Level One ITP course was held in April with the Level Two course in August and Level Three in September. He thought the grants would be nearly or fully expended. He also noted that ITP attendance was down in 2018 so expenses were less than anticipated. R. Taft asked if unspent grant amounts from the ITP can be reallocated to the Foundation grant. J. Park responded "yes." M. Abbott added that this practice could change in the future. The ASC could move to, for example, a three-year grant program and unexpended funds could be rolled over to the 2nd year and would be reduced commensurately in the 3rd year. M. Hatheway noted that, with additional

revenue, there is more flexibility in how the funds can be used. M. Abbott suggested challenge grants and working with community colleges to develop training for those interested in entering the appraisal profession.

G. Hull also reported on the FY19 budget through June 30th. The FY19 revenue is slightly higher than anticipated due to National Registry credentials remaining level along with AMC revenue fee collections. Expenditures are at or near projected levels

- **Notation Vote**

L. Schuster reported that the notation vote to approve the 2018 ASC Annual Report passed with a 7-0 vote on May 14th.

ACTION ITEMS

- **May 8, 2019 Open Session Minutes**

M. Hatheway made a motion to approve the May 8th open session meeting minutes as presented. R. Taft seconded and all members present voted to approve. The vote passed 5-0 with J. Schroeder abstaining as he was not the CFPB representative at the time.

- **July 9, 2019 Open Session Minutes**

M. Hatheway made a motion to approve the July 9th open session meeting minutes with edits which were discussed. R. Taft seconded and all members present voted to approve. The

vote passed 5-0 with J. Schroeder abstaining since he was not the CFPB representative at the time.

- **FY20 ASC Budget Proposal**

G. Hull presented the FY20 ASC Budget. Appraiser Registry fees for FY20 are estimated to be \$3.8M and AMC Registry fees \$2.9M. Expenses are estimated to be \$4.1M. This does not include the Foundation or ITP grants as those will be on the agenda of the November 13th ASC Meeting. R. Taft asked how AMC Registry fee revenue was estimated. G. Hull responded that an average of 117 AMCs was estimated per State with an average of 30 appraisers per AMC. This estimate was reached by looking at invoices for States who are already submitting information to the AMC Registry and multiplied by the number of States. Because States are not required to submit information to the AMC Registry until June of 2020, he used two-thirds of that total which is \$2.9M. M. Hatheway felt that estimate was high. G. Hull noted that \$500,000 has already been received in FY19 when ASC staff estimated there would be no AMC Registry fee income. R. Taft said that larger States such as California and New York will be higher than the estimate. T. Segerson cautioned on over or underestimating the AMC Registry fee income. J. Park stated that there has been a 20% decrease in AMCs in the past few years with more consolidation of AMCs in the next few years. J. Schroeder asked if the AMC Registry fee income is lower than anticipated how that would affect the budget. G. Hull responded that expenses are \$4M for FY20 and he did not see that the budget would be greatly affected if the fee income is lower. M. Abbott suggested that unspent budget funds be set aside for grant initiatives to be determined rather than

adding them to the reserve account. R. Taft asked for clarification on the IT Projects. B. Kelly responded that \$300K is requested to rebuild the ASC website and for development and design of Compliance Review Software. \$36K is requested for enhancements to the National Registries and website and \$10K is requested to assist States with implementation and utilization of the Unique Identifier program. M. Hatheway asked how software would be chosen for these projects. B. Kelly responded that there are plenty of options and he will work with the ASC IT contractors to determine the best choice. J. Schroeder asked for clarification of the Independent Auditor Contract. M. Abbott responded that once policies for the Grants Program are approved and implemented, the ASC will contract with an audit firm to conduct an audit of the Appraisal Foundation. These audits will be conducted periodically in future years. R. Taft noted that FY20 expenses are nearly \$1M higher than FY19 due to increased costs for the Grants Program, IT projects, and new staff and asked what other areas have been increased. G. Hull responded that most areas of the budget have increased for FY20. R. Taft made a motion to approve the ASC FY20 budget as presented. T. Segerson seconded and all members present voted to approve. A. Lindo asked G. Hull to update the ASC on AMC registry fee income at future ASC Meetings.

The Open Session adjourned at 11:20 a.m. The next ASC Meeting will be held on November 13, 2019.