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Appraisal Subcommittee

Federal Financial Institutions Examination Council

TO: Appraisal Subcommittee

FROM: Denise Graves, Deputy Executive Director

DATE: February 10, 2017

RE: State Compliance Review Findings Data and Trends

The attached graphs indicate that trends over the last five State Compliance Review Cycles show an overall improvement in State compliance with Title XI. We attribute the improvement to several factors. First, in 2008, the ASC increased the frequency of Compliance Reviews of States' Programs from no less than once every three years to no less than once every two years. In 2009, the overall Compliance Review process was modified to include a Preliminary Findings Report that provide States 60 days to respond to the ASC staff findings prior to finalization of the Compliance Review. Any response or Program alterations are considered by the ASC in its final disposition of the Compliance Review. States make a real effort to correct deficiencies found during the on-site portion of the Compliance Review in order to achieve the highest rating in the Final Compliance Review Report.

In 2009, the ASC began providing grant funds to the Foundation in support of the Investigator Training Program for State investigators, board members, and legal and administrative staff. This training was developed jointly by the Foundation, the Association of Appraiser Regulatory Officials, and the ASC to provide States with a professional development opportunity that is otherwise not available to State employees. The course promotes best practices in complaint investigation and resolution. The training covers topics such as USPAP and proper investigative techniques, and provides resources to aid States in their investigative processing of complaints against appraisers. States report that they have benefitted from these courses in how the investigations are conducted, documented and presented. The Policy Managers are finding that investigations are more thorough, the enforcement files are better documented, and resolutions have clearer rationale. The Compliance Review results provide the most compelling evidence that the Investigator Training Program is effective.

Finally, the ASC's Compliance Review Program was enhanced through the adoption of revised Policy Statements, effective June 1, 2013. As part of the revised Policy Statements, the ASC refined the Compliance Review rating system to better reflect a State Program's compliance with Title XI. The number of Findings with no compliance issues, equal to a Finding of Excellent, has increased significantly since 2007 (see Graph number 1). There is a correlation with the downswing shown during 2013-2014 with the implementation of new requirements from the Dodd-Frank Act (DFA), effective July 1, 2013, and the revised ASC Policy Statements, effective June 1, 2013. As an example, DFA added requirements for Reciprocity, State Licensed appraisers, and Trainee/Supervisory appraisers. In addition, the revised ASC Policy Statements

added more robust requirements for the National Registry and IT assurance requirements, including requiring certain disciplinary actions to be reported to the National Registry within five business days.

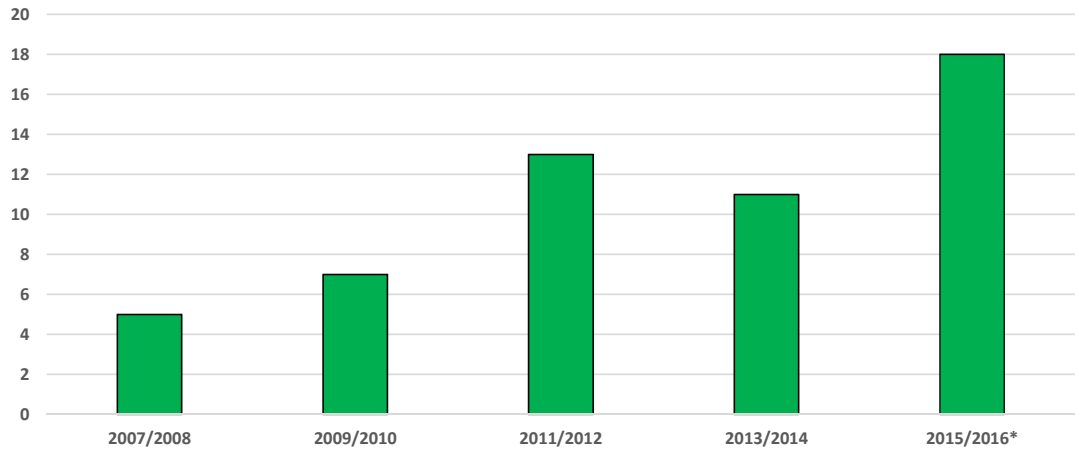
Graph number 2 shows the number of States found out of compliance in the Statutes, Regulations, Policies and Procedures area. AQB Criteria changes, effective January 1, 2008, and January 1, 2015, required several statute and/or regulation changes, which coincide with the increase of non-compliance for those years. As discussed above, implementation of the DFA requirements and changes in the revised ASC Policy Statements contributed to the increased 2013 and 2014 non-compliance findings.

States out of compliance for timely enforcement, graph number 3, historically has been the area with the largest number of non-compliance issues. The trend toward more timely enforcement appears to be from a combination of the revised Compliance Review process and rating system, and the Investigator Training Program.

Finally, the glue that holds the Program together is the Policy Managers, our day to day front line staff. They communicate regularly with their States, not just during Reviews, and have built a strong rapport with their assigned States. The Policy Managers are the ones out there working diligently to ensure that the States understand ASC expectations and compliance requirements. They are proactive in getting information to their States when changes in requirements are needed and keep them abreast of topical issues. States are constantly giving us feedback on the professionalism of the Policy Managers, and how much they appreciate their help.

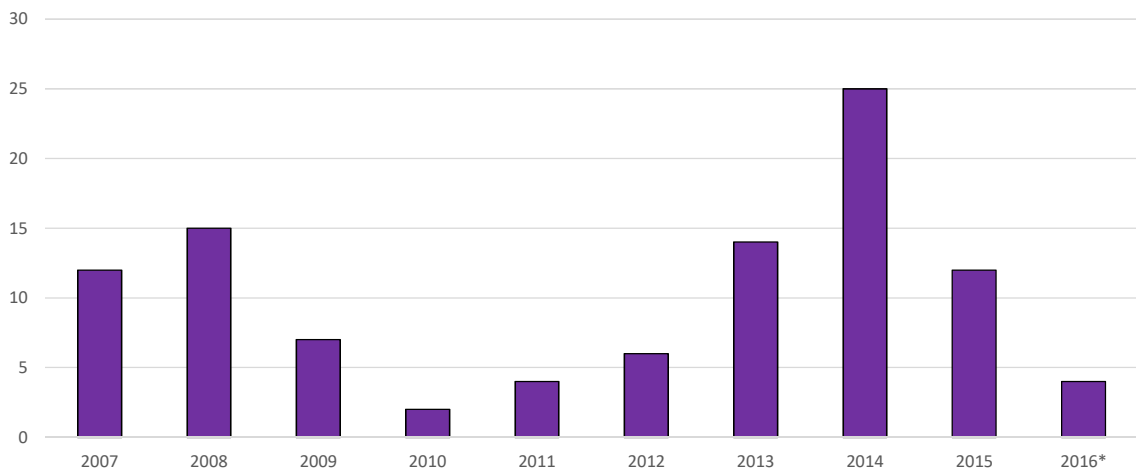
In conclusion, the data, as well as our day to day interaction with the States, shows that the improvements made to the Compliance Review process over the past eight years are working and the partnership between the ASC, Appraisal Foundation and States is an effective model for appraisal/appraiser regulation.

#1 State Review Cycles with No Compliance Issues (Equates to "Excellent")



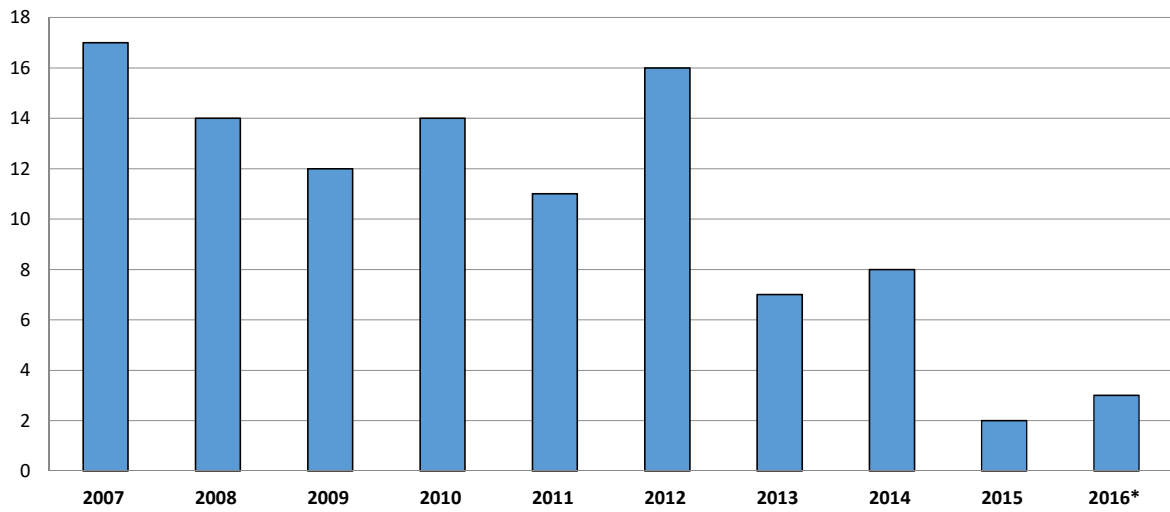
* Two Reviews performed in 2016 have not been finalized

#2 States Out of Compliance in Statutes, Regulations, Policies and Procedures



* Two Reviews performed in 2016 have not been finalized

#3 **States Out of Compliance in Timely Enforcement**



* Two Reviews performed in 2016 have not been finalized