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Appraisal Subcommittee

Federal Financial Institutions Examination Council

August 28, 1998

Mr. David S. Bunton
Executive Vice President
The Appraisal Foundation
1029 Vermont Ave., NW, Suite 900
Washington, DC 20005-3517

Dear Mr. Bunton:

This letter responds to your January-June 1998 requests for reimbursement under the Appraisal Subcommittee's ("ASC") funding agreement for calendar year 1998. In brief, we have approved funding for all items, except for portions relating to the Appraisal Standards Board's ("ASB") project to revise the Uniform Standards of Professional Appraisal Practice ("USPAP").

Background:

On September 25, 1997, the Foundation submitted its request for calendar year 1998 funding. By letter dated December 8, 1997, Executive Director Ben Henson notified you of the ASC's approval of \$638,337 of the requested \$790,142. The approved amount later was amended to \$660,650. Of this amount, \$296,430 was approved for project ASB201 - USPAP Standards 1-3 Interpretations & Advice. This project, almost exclusively, relates to revising USPAP. The Statement of Work contained at Tab 3 in the Foundation's request is the basis on which the ASC approved funding. The Foundation, through its boards, is responsible for honoring the terms and commitments set forth in the Statement of Work and other funding request documents. Pages 10-23 of the narrative portion of the Statement of Work contain the terms and commitments relating to the ASB portion of the funding request. The Foundation failed to meet the following four commitments in connection with the USPAP revision project:

- "While USPAP will look different, the ASB is not changing the fundamental requirements for professional appraisal practice. The ASB intends that the scope and coverage of USPAP remain the same."

In the first USPAP draft revision, released in December 1997, USPAP's fundamental requirements changed significantly. Additionally, USPAP's scope and coverage changed. Numerous Federal and State agencies, including ASC member agencies, said that they would have to issue supplemental standards if USPAP were revised as proposed.

- "The goal of the ASB in the process of revising and restructuring USPAP is to improve user understanding of USPAP and aid enforcement efforts while simultaneously maintaining the stability of the standards of professional appraisal practice."

The overwhelming consensus of appraiser organizations and Federal and State regulatory agencies, including the ASC, is that the proposed revision would have reduced user understanding and would have made enforcement more difficult.

- “The ASB’s Proposed Revised and Restructured USPAP is in response, in part, to the inquiries and comments received from its constituents. The ASB’s goal in the project is to better communicate the requirements of USPAP.”

The draft revision failed to consider or incorporate the inquiries and comments received from its constituents. Also, the overwhelming consensus of appraiser organizations and Federal and State regulatory agencies, including the ASC, is that the proposed revision did not “better communicate” USPAP requirements.

On two occasions in 1996 and 1997, ASB Chairman David Snook met with ASC staff to discuss the direction of the USPAP revision project. During this time, Chairman Snook also discussed this topic at regional and national meetings of the Association of Appraiser Regulatory Officials (“AARO”). During these meetings, ASC staff and State appraiser regulatory officials expressed serious concerns regarding the project’s direction. ASC staff specifically conveyed its serious concern about the change from a “top down” to “bottom up” method of determining when and what parts of USPAP were applicable in a particular appraisal. Chairman Snook clearly indicated to ASC staff that these concerns had been heard and would be addressed. The ASB, however, ignored these concerns and failed to address them. The draft USPAP revision was published containing many problematic provisions. The ASB further failed to explain fully why it was proposing these provisions.

- “The ASB also intends to work directly with regulators and education providers to aid their understanding of any revisions to USPAP. The ASB recognizes the need to work closely with those bodies to ensure implementation is as smooth as possible.”

While the ASB met with some Federal and State regulatory agencies, the ASB failed to meet with the Federal financial institution regulatory agencies, whose input and cooperation are essential to the success of any USPAP revision. The ASB discontinued its previous close communication with the financial institution regulatory agencies during the development phase of the project.

Conclusion:

Had the ASB met its commitments and developed a viable USPAP revision during its first, approximately two-year effort, much of the work being performed in 1998 would not have been necessary. As a Federal agency administering public funds through grant and/or contracting relationships, the ASC has a legal, fiduciary responsibility to ensure that those funds are expended in a prudent manner and that funding commitments are met prior to authorizing payments. The Foundation’s failure to meet critical, agreed-upon commitments precludes us from approving the reimbursement requests in their entirety.

ASC Action:

On August 12, 1998, the ASC unanimously voted to fund the Foundation’s January-April 1998 reimbursement request as follows:

- **Administrative Salaries**

This item reflects the amount of time the Foundation staff (as opposed to the various boards) spends supporting the ASB. Because staff participated in some meetings and conference calls,

portions of which should not have been necessary, the ASC approved funding \$16,862 of the requested \$18,736 (a 10% reduction).

- **Administrative Benefits:**

This item is based on a 29.4% ratio of Administrative Salaries. The ASC approved funding \$4,958 of the requested \$5,509 (a 10% reduction).

- **Overhead:**

This item is based on a 66.9% ratio of the combined total of Administrative Salaries and Administrative Benefits. The ASC approved funding \$14,598 of the requested \$16,220 (a 10% reduction).

- **Telephone:**

Most of the telephone costs were associated with conference calls involving ASB members and Foundation staff. Because a large portion of those calls focused on the USPAP revision project, the ASC approved funding \$1,229 of the requested \$2,459 (a 50% reduction).

- **Postage and Delivery:**

Some portion of this cost was attributed to mailing and/or delivering documents involving the USPAP revision. The ASC approved funding \$4,972 of the requested \$9,944 (a 50% reduction).

- **Printing:**

Some portion of this cost was attributed to printing documents involving the USPAP revision. The ASC approved funding \$4,773 of the requested \$9,547 (a 50% reduction).

- **Consulting:**

This item is composed of the hourly rates paid to ASB members for their activities on behalf of the Foundation. Because most of the ASB's activities during this time period involved the USPAP revision, the ASC approved funding \$17,322 of the requested \$69,288 (a 75% reduction).

- **Other Areas:**

The ASC approved full funding for the Supplies, Equipment Rental, Travel, and Legal line items.

- **Total (January-April 1998):**

For the January-April 1998 reimbursement request, the ASC approved \$96,702 of the \$163,691 requested for ASB activities. (The non-ASB portion of the request had been paid previously.)

May 1998 Reimbursement Request:

The ASC approved funding the May 1998 reimbursement request, except for a portion of the ASB-related costs. Based on documentation provided subsequent to the request, ASB members charged approximately \$4,613 for 83 hours of work for “Review and edits to working draft of 2nd exposure draft to USPAP.” For the reasons discussed earlier in this letter, the ASC approved funding \$1,153 of the requested \$4,613 (a 75% reduction). This approval results in funding \$57,510 of the \$60,790 requested for May 1998.

June 1998 Reimbursement Request:

The ASC approved funding the June 1998 reimbursement request, except for a portion of the ASB-related costs. Based on documentation provided subsequent to the request, ASB members charged approximately \$13,844 for 249 hours of work for “Review and edits to working draft of 2nd exposure draft to USPAP.” For the reasons discussed earlier in this letter, the ASC approved funding \$3,461 of the requested \$13,844 (a 75% reduction). This approval results in funding \$47,227 of the \$57,610 requested for June 1998.

If you have any questions, please contact Executive Director Ben Henson.

Sincerely,

Herbert S. Yolles
Chairman