

**APPRAISAL SUBCOMMITTEE
OPEN SESSION MEETING MINUTES
SEPTEMBER 14, 2016**

LOCATION: Federal Reserve Board – International Square location
1850 K Street NW, Washington, DC 20006

ATTENDEES

ASC MEMBERS: FRB – Art Lindo (Chair)
CFPB – Mira Marshall
FDIC – Marianne Hatheway
FHFA – Robert Witt
NCUA – Tim Segerson
OCC – Richard Taft

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

PRESENTERS: Appraisal Foundation – Dave Bunton
Appraisal Foundation – Edna Nkemngu

OBSERVERS: AARO – Larry Disney
Appraisal Institute – Brian Rodgers
e-Farm Credit – Dennis Badger
FDIC – Michael Briggs
FDIC – Kaye Finn
FDIC – Suzy Gardner
FDIC – Kimberly Stock
FDIC – Lauren Thompson
FRB – Virginia Gibbs
FRB – Carmen Holly
HUD – Robert Frazier
OCC- Chris Manthey
REVAA – Tom Tilton

The Meeting was called to order at 10:05 a.m. by Vice Chair R. Taft, who chaired the Meeting until A. Lindo arrived.

REPORTS

- **Chairman**

R. Taft welcomed observers to the Meeting. He provided an update on three items: (1) the comment period for the Notice of Proposed Rulemaking on the Implementation of AMC Fees closed on July 19th and ASC staff is analyzing the comments; (2) the FFIEC agencies are working through the Economic Growth and Regulatory Paperwork Reduction Act process and plan to have their recommendations to Congress by the end of the year; and (3) the ASC will continue to submit quarterly reports to the FFIEC with briefings held semi-annually.

- **Executive Director**

J. Park reported on ASC staff activities since the ASC's July 13th Meeting. He announced that D. Rhoads will be retiring on October 1st and thanked him for his contributions. A. Bohorfoush, the HUD alternate to the ASC, has been detailed to the ASC staff through mid-November.

On August 25-26, the Appraiser Qualifications Board (AQB) held a Meeting in Washington, DC which he and D. Graves attended. The AQB is preparing the second Exposure Draft of proposed changes to the AQB Criteria. The AQB will continue to propose alternate paths to certification for licensed appraisers who do not possess a four-year college degree. The AQB also held a webinar to present potential changes to the AQB Criteria and answer questions from a live audience. Over 200 persons logged into the presentation with nearly 100 questions asked by participants.

ASC staff is preparing to launch the Unique Identifier Program for appraisers on the Appraiser Registry. A letter will be sent to States within the next couple of weeks notifying them that the conversion program is available for their use or States may authorize the ASC to do the conversion for them. Full adoption by all States could take a year or longer.

The development of the AMC Registry is nearing completion and should be ready for use once the AMC fee rule is finalized. R. Frazier asked if ASC staff knows how many AMCs might register. J. Park responded that ASC staff is unsure of the number at this time.

- **Delegated State Compliance Reviews**

D. Rhoads reported on State Compliance Reviews completed pursuant to delegated authority since the ASC's July 13th Meeting. Five State Compliance Reviews were finalized and approved by the Executive Director under delegated authority. Missouri, North Dakota, Oregon and Washington were awarded a Finding of "Excellent" and all will

remain on a two-year Review Cycle. Maryland was awarded a Finding of “Good” and will remain on a two-year Review Cycle. One State Compliance Review was finalized and approved by the Chairman under delegated authority. Massachusetts was awarded a Finding of “Needs Improvement” and will remain on a two-year Review Cycle with off-site monitoring. A Follow-up Review was conducted of the Virginia program and ASC staff will continue to monitor the program’s progress. R. Taft asked if Massachusetts submitted an action plan to the ASC. D. Rhoads answered that Massachusetts has submitted a corrective action plan to the ASC staff for review and the State will submit periodic reports to the ASC noting its progress.

- **Financial Manager**

G. Hull reported on Appraisal Foundation grant reimbursement requests which have been processed for payment. The April 2016 request was paid in the amount of \$44,303. This covered expenses for the AQB Meeting in Phoenix, AZ on April 7-8 and for costs related to the State Investigator Training Courses. The May 2016 request was paid in the amount of \$102,516. This covered expenses for the Level One State Investigator Training Course held in St. Louis, MO on May 23-25. The June 2016 reimbursement request was paid in the amount of \$58,259. This included costs for the Appraisal Standards Board (ASB) Meeting held in Indianapolis, IN on June 16-17 and the AQB Meeting held on June 23-24 in Las Vegas, NV.

ACTION ITEMS

- **July 13, 2016 Open Session Minutes**

M. Marshall made a motion to approve the July 13th open session meeting minutes as presented. R. Witt seconded and all members present voted to approve.

- **Appraisal Foundation FY 17 Grant Proposal**

D. Bunton and E. Nkemngu presented the Appraisal Foundation (Foundation) FY17 Grant Proposal in the amount of \$1,074,912. Of this amount, \$309,085 is for State Investigator Training and \$765,827 is for grant-eligible activities of the AQB and ASB. D. Bunton said that the State Investigator Training Courses have been highly successful and the Foundation is considering webinars or online courses for training that is beyond the Level Three course. Funding is requested for three course offerings in FY17. In addition, funds are requested to update the courses as they have not been significantly revised in several years. The ASB will continue work on the 2018-19 edition of the Uniform Standards of Professional Appraisal Practice (USPAP).

The AQB is considering possible alternatives to the current education and experience requirements for each of the three classifications (Licensed, Certified Residential, Certified General). Alternatives may include:

- Alternative Track for Licensed Residential to Certified Residential addressing the college-level education requirements that were related to this topic.
- Enhanced Practicum Curriculum concerning development of future specific course guidelines for the Practical Applications of Real Estate. The courses would be designed for use by colleges and universities, professional organizations, and proprietary schools.

M. Hatheway asked if the Bachelor's Degree would no longer be required. D. Bunton responded that it would be required for the Certified General Level. R. Witt asked how the ASB would address States' ability to investigate fraud if numerous draft appraisal reports are prepared for a single appraisal assignment. D. Bunton said he would discuss this issue with the ASB. J. Park noted that the ASB's Second Exposure draft on changes to the 2018-19 edition of USPAP states that only the last appraisal report draft would be required to be retained in the appraiser's file. M. Hatheway asked how the Foundation supports projects when the grant award is lower than the requested amount. D. Bunton responded that the Foundation will develop its budget once the award amount is finalized and they may pay for projects out of their reserves. He added that the Foundation is expecting a surplus this year which will be added to their reserves.

- **ASC FY17 Budget Proposal**

G. Hull and J. Park presented the ASC FY17 Budget Proposal. J. Park said the proposed budget supports the ASC's Strategic Plan. The proposed FY17 Operating Expenses are 10% less than the FY16 budgeted amount but will be 3% higher than the FY16 projected expenses. ASC staff has prepared two options. Option A would produce a deficit of \$605,595 if fully funded. It includes funding of \$100,000 that would assist States with the cost of integrating their computer systems with the National Registry through the Simple Object Access Protocol (SOAP) system. Funding of \$100,000 is also included to reimburse States for staff or board members to complete the 7-hour or 15-hour USPAP Courses. The total for all Foundation and State grants in Option A would be \$859,085. Option B would produce a deficit of \$305,595 if fully funded. Option B includes the same operating budget with \$200,000 deducted from State Grants and \$100,000 deducted from the Foundation grant. The total for all Foundation and State grants in Option B would be \$559,085. Both options allow the ASC to maintain adequate one-year operating reserves. J. Park added that the ASC expects a loss of approximately \$270,000 in FY16. The ASC has had a cumulative loss of \$150,000 over the past five fiscal years.

G. Hull noted that FY17 revenue is projected to decline to \$3.4 million based on a 3% decrease in appraisers on the National Registry. AMC Fees are not expected to be received in FY17. Total operating expenses, not including the grants, are projected to be \$3.2 million. He said that 6.8% of fees will be sequestered in FY16 while 6.9% will be sequestered in FY17. The sequestered funds are recoverable the following year. The Reserve balance for FY17 under Option A will be \$3.8 million and for Option B it would be \$4.1 million.

R. Witt asked when ASC staff will develop a revised policy to administer additional grants to States. J. Park responded that funding to hire a Grants Administrator is included in the FY17 budget and that person would develop a more robust grant program to include policies and procedures. R. Witt asked how the ASC staff would track the use of grant funds. A. Ritter responded that States would be reimbursed once they provide proof of the expenses, similar to the grant reimbursement for the Foundation grant. M. Hatheway asked if the ASC has spending priorities for grant funding and asked other ASC members if they feel that grant funds should be used for these types of items. She felt that until the ASC has a better estimate of AMC Registry Fee revenue, grants should be used for priority projects. M. Marshall commented that some States have expressed concern over receiving grant funding because some State program budgets would be decreased by the amount of the grant. She and R. Witt did feel that funds for SOAP implementation may make Registry submissions easier for States. M. Hatheway suggested that ASC members have a discussion on what projects are priorities for funding. J. Park said that the ASC Policy Statements require States to be educated about USPAP. He added that Option A was prepared anticipating significant AMC fee revenue in the next two-three years. A. Ritter said that SOAP implementation was one of the recommendations from the ASC Advisory Committee as well. M. Hatheway said she is concerned about spending future revenues if there is no way to quantify the amount that might be received. R. Taft said that the ASC should not be using reserves to fund standard operating grants and that the ASC needs to think about its goals on an annual basis to prepare a budget. M. Hatheway asked what could be done to prevent using reserves. M. Marshall answered that the ASC has had this discussion in the past but there is still uncertainty about AMC Registry fee revenue. She felt that hiring a Grants Administrator to decide on a strategy as well as the grant award procedures is a positive step. M. Hatheway restated her position that the ASC needs to be conservative in its budget and decide on priorities. (A. Lindo joined the Meeting.) M. Marshall asked by what date a vote is needed on the budget. J. Park responded that the ASC's fiscal year begins on October 1st so before that date is optimal. He added that the operating budget could be approved minus the grants. This would allow staff time to compile more information on AMC fee revenue estimates and grant priorities. J. Park said the Foundation would like to know the grant amount before their Board of Trustees Meeting in November so that they can prepare and vote on their budget which is on a calendar year. M. Marshall asked what the amount of \$9,800 for Grant Education Development was for under Travel. J. Park responded that was a carryover from the FY16 budget and it will be deleted. M. Marshall asked what the duties of the Regulatory Affairs

Specialist would be. D. Graves responded C. Brooks held that position before she was moved to the Policy Manager position. R. Taft asked if website redesign would be completed in FY17 and J. Park said “yes.”

M. Hatheway offered a motion to continue payment of reoccurring operating expenses such as personnel and rent through November 2016. There was no second on the motion. T. Segerson asked if any projects would be delayed if the FY17 budget was not approved today. J. Park answered “no.”

M. Marshall offered a motion to approve the operating expenses as noted on the FY17 proposed budget and, within the next month, the ASC would vote on grant funding. There was no second on the motion. M. Hatheway stated that she would like the ASC staff to prepare a document that prioritizes the projects in the FY17 proposed budget. M. Marshall noted that the FY17 operating budget is less than the FY16 operating budget. A. Ritter said that the ASC has previously approved an operating budget while grants were approved at a later date. The budget was then amended to include the approved grant amounts and approved by the ASC. T. Segerson agreed with this approach. M. Hatheway stated that she is not comfortable supporting the proposed budget as presented.

M. Marshall offered a motion to approve the operating expense budget and postpone approval of the grants at this time. As a part of her motion, she directed ASC staff to prepare estimates for AMC Registry fee revenue for the next five years. Once the ASC receives and reviews this information, grant funding could be determined and approved. A. Ritter said the ASC could hold a Special Meeting rather than waiting until the ASC Meeting on November 9th. T. Segerson asked when staff could have the information to the ASC. J. Park said it could be completed by the end of September and a Special Meeting could be called depending upon the availability of the ASC members. M. Marshall asked if there was anything specific in the operating budget that the ASC members questioned. R. Witt was concerned about the cost for the website redesign. T. Segerson supported approving the FY17 proposed operating budget minus the grants if there are no objections to any of the items in the operating budget. T. Segerson seconded M. Marshall’s motion. M. Hatheway abstained from voting and other members voted to approve. A. Lindo directed staff to prepare the requested estimates for AMC fee income as soon as is practicable, as well as recommended priorities for grant and project priorities. The ASC can then set up a meeting to review and discuss this information in October or November, at which time it will decide upon grant funds and any proposed changes to the operating budget as a result of the grant/project priority work.

The Open Session adjourned at 11:50 a.m. The next ASC Meeting will be November 9, 2016.