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Appraisal Subcommittee

Federal Financial Institutions Examination Council

July 19, 2006

Mr. Richard Stephens, Chairman
Arkansas Appraiser Licensing and Certification Board
101 East Capitol, Suite 430
Little Rock, AR 72201

Dear Mr. Stephens:

Thank you for the cooperation and assistance of the Arkansas Appraiser Licensing and Certification Board ("Board") in the June 6-7, 2006 Appraisal Subcommittee ("ASC") review of Arkansas' real estate appraiser regulatory program ("Program"). Based on our review, Arkansas needs to address the following two concerns to bring the Program into substantial compliance with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended ("Title XI").

- **Arkansas' regulations, policies, and practices regarding appraiser reinstatement from inactive status do not conform to Appraiser Qualifications Board ("AQB") criteria.**

Arkansas' regulations currently require that any appraiser who wishes to reinstate his or her credential from a period of inactive status must take fourteen hours of "refresher courses," plus any continuing education that was delinquent before the inactive status. Also, any appraiser who has been on inactive status for more than three years must take "the USPAP course."

In September 2005, the AQB adopted an Interpretation to its criteria clarifying that waivers and deferrals of continuing education were not permissible. That Interpretation further stated that, prior to reactivation, inactive credential holders must complete all continuing education that would have been required during the period they were in inactive status, including the most recent edition of the 7-hour National USPAP Update Course. (The AQB recently modified this Interpretation to allow States to defer completion of the continuing education requirements for up to 180 days for credential holders returning from active military duty.)

Board staff informed us that two certified appraisers had reinstated their credentials since September 2005. Both appraisers had been in inactive status for four years. They submitted 28 hours of continuing education, including completion of the most recent 7-hour National USPAP Update Course. One of these appraisers had a 14-hour continuing education deficiency at the time he became inactive; the other certified appraiser had met his continuing education obligations.

To comply with the AQB's certification criteria, the certified appraiser who had the deficiency should have been required to complete 70 hours of continuing education, including the most recent 7-hour National USPAP Update Course. The appraiser who did not have a continuing education deficiency when he went into inactive status should have been required to complete 56 hours of continuing education, including the most recent 7-hour National USPAP Update Course.

To address this situation, the Board needs to:

1. Review its records regarding appraisers who reactivated their certified credentials since September 2005;
 2. Within 30 days of receipt of this letter, determine whether the appraisers identified in step one have taken all continuing education that would have been required if the credential holder had been in active status, including the most recent edition of a 7-hour National USPAP Update Course;
 3. Require all certified appraisers who are delinquent in required continuing education to successfully complete the appropriate education within 120 days from the Board's receipt of this letter;
 4. Take the necessary steps to downgrade to the licensed level any certified appraiser who fails to successfully complete the appropriate education within the 120-day period;
 5. Initiate the necessary amendments to Board regulations, policies, and practice to ensure compliance with the AQB's certification criteria regarding reinstatement;
 6. Refrain from reinstating appraiser certifications that fail to conform to AQB certification criteria; and
 7. Within 120 days from the Board's receipt of this letter, send the ASC a spreadsheet listing each appraiser identified in step one, and include each appraiser's status relative to this action plan.
- **Arkansas' regulations, policies, and practices allow tax assessors to become certified appraisers without conforming to AQB experience criteria and in a manner that is inconsistent with ASC Policy Statement 10 F.**

Under the AQB's certification criteria, while *ad valorem* tax appraisal experience is acceptable experience, such experience must conform to USPAP Standard 6 and may be given credit if it demonstrates proficiency in appraisal principles, techniques, or skills used by appraisers practicing under USPAP Standard 1. In addition, verification of experience claimed must be on State forms that should include information relating to the type of property, date of report, address of appraised property, description of work performed, and number of work hours. Finally, experience documentation in the form of reports or file memoranda should be available to support the experience claimed.

All certification applicants, other than tax assessors, go through a rigorous experience evaluation process that fully complies with Title XI, AQB certification criteria, and ASC Policy Statement 10 F. Board regulations, however, treat tax assessor applicants differently. The regulations state that *ad valorem* tax appraisers may be awarded experience credit as evidenced by a timed log of specific appraisal tasks performed and by demonstrating, in advance of taking the exam, that he or she has effectively used similar appraisal process techniques to value properties as do other appraisers.

In practice, the Board has implemented this regulation in a manner that fails to conform to AQB certification criteria. The Board has accepted from tax assessor applicants affidavits of experience claimed, along with timed logs of specific appraisal tasks performed, together with narrative descriptions detailing the types of tasks performed. Some of these logs have referenced

work performed in a simple one-line summary. The Board then has required these applicants to perform and submit a demonstration appraisal report in compliance with USPAP Standards 1 and 2. The affidavits have not referenced USPAP-compliant work or that the appraiser should have appraisal reports and/or other records to support the experience. The Board and Board staff, in fact, indicated that the Board has not reviewed mass appraisal applicants' experience claims to determine whether that experience conformed to USPAP Standard 6.

In addition, the Board's regulation and implementing policy fails to comply with ASC Policy Statement 10.F.2, which became effective January 1, 2005. That paragraph prohibits States from accepting experience-related affidavits from applicants for certification. States must require documentation to support the full experience hours required for certification. While that documentation can be in the form of a log, the entries on that log must contain sufficient information for a State to determine that the experience claimed by the applicant meets AQB certification criteria. We believe that it would be impossible for the Board to make that determination based on logs that reference work performed in a simple one-line summary.

Since the Program's inception, it is possible that the Board has issued certified appraiser credentials to tax assessors based on the Board's regulations and practices that are inconsistent with the AQB's certification criteria and, since January 1, 2005, ASC Policy Statement 10 F.

The Board needs to take the following steps to address this concern:

1. Immediately cease awarding certified credentials to mass appraisers/tax assessors unless their experience conforms fully to the AQB's experience requirements for certification and ASC Policy Statement 10 F;
2. Within 60 days from the date of this letter, identify, since the inception of the Program, all certified appraisers who were mass appraisal/tax assessors and were granted certified appraiser credentials;
3. Within 90 days from the date of this letter, determine whether the file for each appraiser identified in step two contains documentation to support conformance to AQB criteria and, if those appraisers were certified on or after January 1, 2005, ASC Policy Statement 10 F;
4. Within 120 days from the date of this letter, send to all appraisers determined to be deficient in step three a letter requesting documentation of appraiser experience obtained since being issued an appraiser credential. This documentation should be the same as the Board requires of non-mass appraisal/tax assessor applicants;
5. Within 180 days from the date of this letter, determine whether any of the appraisers identified in step three have failed to document sufficient AQB-qualifying experience for the credential held. For each appraiser who fails to document the necessary experience, begin the necessary steps to downgrade that appraiser to the licensed level. Alternatively, the Board could recall existing certifications and overstamp them with wording similar to "Not eligible to appraise federally related transactions." In this case, the appraiser's record on the National Registry would be changed from "Active" to "Inactive;" and
6. Within 180 days from the Board's receipt of this letter, send the ASC a spreadsheet listing each appraiser identified in step one, and include each appraiser's status relative to this action plan.

Please respond to our findings and recommendations within 60 days from the date of this letter. Until the expiration of that time period or the receipt of your response, we consider this field review to be an open matter. After receiving your response or the expiration of the 60-day response period, whichever is earlier, this letter, your response and any other correspondence between you and the ASC regarding this field review become releasable to the public under the Freedom of Information Act and will be made available on our Web site.

Please contact us if you have any questions.

Sincerely,

Virginia M. Gibbs
Chairman

cc: James Martin, Executive Director