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Appraisal Subcommittee

Federal Financial Institutions Examination Council

January 19, 2006

Mr. Tom Heineman, Chair
Arizona Board of Appraisal
1400 West Washington Street, Suite 360
Phoenix, AZ 85007

Dear Mr. Heineman:

Thank you for your cooperation and your staff's assistance in the November 16-17, 2005 Appraisal Subcommittee ("ASC") review of Arizona's real estate appraiser regulatory program ("Program"). Based on our field review, the Board needs to address 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").

- **Arizona's statute allows for extending continuing education terms for appraisers who fail to meet those requirements because of circumstances beyond their control. This provision conflicts with Appraiser Qualifications Board ("AQB") criteria.**

Section 32-3919(B) of Arizona's appraiser regulatory statute allows the Board to extend the continuing education term of a licensed or certified appraiser for a period not to exceed six months, if the Board determines that the appraiser failed to meet that requirement because of circumstances beyond his/her control. During the review period, one appraiser was provided a six-month extension to complete his continuing education because he had been involved in an automobile accident. AQB criteria do not allow for continuing education extensions or waivers. After a public comment period, the AQB issued a criteria interpretation confirming its position regarding this issue in 2005.

In September 2005, the AQB adopted the following interpretation:

Waivers or deferrals may not be granted to credential holders who have failed to meet the continuing education requirements. Appraiser regulatory agencies with the appropriate authority to do so, may place a credential holder in an "inactive status" in the event that the state determines that the deficiency in continuing education was due to extenuating circumstances.

Prior to reactivation, credential holders in an inactive status must complete all required continuing education hours that would have been required if the credential holder was in an active status. The required hours must also include the most recent edition of a 7-hour *National USPAP Update Course*.

The Board needs to initiate promptly the process of amending the State's statutes, regulations, and/or policies and procedures to ensure compliance with this interpretation to the AQB certification criteria. Please notify us in writing regarding how the Board plans to ensure that compliance. We encourage the Board to extend those changes to licensed appraisers to maintain consistency of treatment and conformance with AQB criteria.

- **Arizona's statute and the Board's regulations continue to contain incorrect references.**

Arizona statute and regulations continue to reference the ASC incorrectly. A statutory amendment, effective August 25, 2004, corrected some inconsistencies but created new ones. Specifically, §32-3605 of the statute needs to be corrected to identify the Appraisal Standards Board of the Appraisal Foundation ("ASB") as the entity that prescribes professional appraisal standards and the AQB as the entity that establishes examination specifications, rather than the ASC. We are available to review your proposed statutory and regulatory amendments to help avoid Title XI compliance issues.

Finally, we understand that the Board recently voted to implement the 2008 AQB criteria changes using the "segmented approach." The Board believes that a statutory amendment is not needed. ASC staff, however, found one section of Arizona's statute, § 32-3615, that references specific experience requirements that appear not to be consistent with either existing or 2008 AQB criteria. It appears that this provision might necessitate a statutory amendment to implement the 2008 criteria. The Board should have legal counsel review this and all other statutory provisions to determine whether statutory amendments will be needed to implement the criteria changes.

Please respond to our findings and recommendations within 60 days following receipt of this letter. Until the expiration of that period or 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 further questions.

Sincerely,

Virginia M. Gibbs
Chairman

cc: Deborah Pearson, Executive Director