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Appraisal Subcommittee

Federal Financial Institutions Examination Council

July 10, 2002

Kathryn S. Matayoshi, Director
Department of Commerce and Consumer Affairs
PO Box 3469
Honolulu, HI 96801

Dear Ms. Matayoshi:

Thank you for the Department of Commerce and Consumer Affairs' ("Department") and Division of Professional and Vocational Licensing's ("Division") cooperation in the June 4-5, 2002 Appraisal Subcommittee ("ASC") review of the Hawaii real estate appraiser regulatory program ("Program"). We also appreciate the assistance of Executive Officer Candace Ito and Jo Ann Uchida for the Regulated Industries Complaint Office ("RICO").

We appreciate the Department's actions to address the concern noted in our 1999 review regarding upgrading Licensed appraisers to the Certified Residential classification. Our current review revealed three areas that need your attention to bring Hawaii's Program into compliance with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Program of 1989, as amended ("Title XI").

- **Temporary Practice permits are not processed in accordance with Title XI and ASC Policy Statement 5.**

As defined in ASC Policy Statement 5, the ASC considers it a burdensome practice for a State to take more than five business days after receipt of a completed application to issue or deny a temporary practice permit. We noted several applications that required 30 days or more to process. Several delays appeared to be caused by the Department's requirement that the appraiser provide a copy of the appraisal contract/assignment before issuing a permit. This requirement causes timing difficulties for appraisal firms where contracts are with the firms rather than individual appraisers. Most of the temporary practice files we reviewed contained contracts with nationwide appraisal firms. The Department needs to find a way to process temporary practice applications in a more timely manner, as prescribed in Policy Statement 5. We noted that Hawaii is the only State that requires a copy of the contract/assignment before issuing a permit. You might wish to reconsider the purpose and benefit of this requirement.

- **The Department's complaint investigation and resolution process does not conform to ASC Policy Statement 10.**

The Department had received seven appraiser-related complaints since our previous review. Three of these complaints remained outstanding two to three years after being received. It appears that two of these three cases could have been dismissed quickly, yet they remained unresolved after almost three years. Additionally, we are concerned that in three cases, where violations were documented, the disciplinary actions taken did not appear to correspond with the

severity of the violations. ASC staff are available to discuss the specifics of individual complaint cases.

An effective complaint investigation and resolution program is critical to a State's ability to effectively supervise certified and licensed appraisers. As discussed in ASC Policy Statement 10, an effective program includes investigating and resolving most complaints within 12 months of receipt and ensuring that appraisers violating the Uniform Standards of Professional Appraisal Practice are disciplined appropriately. To ensure that Hawaii's program is effective, the Department needs to:

- 1) Ensure that complaints are investigated and resolved within 12 months of receipt, or document the reason(s) resolution cannot be accomplished within that time frame;
 - 2) Ensure that the severity of disciplinary actions corresponds to the severity of the violations; and
 - 3) Submit written reports to us quarterly providing the status of existing appraiser-related complaints.
- **Hawaii needs to adopt recent amendments to the Appraiser Qualifications Board ("AQB") Criteria that become effective January 1, 2003.**

The Department had not initiated necessary actions to ensure that AQB Criteria revisions can be implemented by the January 1, 2003 effective date. Many of these revisions will require State statutory and/or regulatory amendments regarding appraiser education and experience. ASC staff provided copies of the Criteria changes and AQB explanatory material during our review. We understand that you have agreed to initiate the necessary changes to conform to the revised Criteria. Please keep us informed of your progress to adopt and implement the revised Criteria.

Please respond to our findings and recommendations within 60 days from the date of this letter. Until the expiration of that 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.

If you have any questions, please contact us.

Sincerely,

Jesse G. Snyder
Chairman