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Appraisal Subcommittee

Federal Financial Institutions Examination Council

June 26, 2006

Mr. Dean Martinez, Secretary
Department of Financial and Professional Regulation
100 W Randolph
Suite 9-300
Chicago, IL 60601

Dear Mr. Martinez:

Thank you for the cooperation and assistance of the Illinois Real Estate Appraiser Board (“Board”) and the Division of Professional Regulation (“Division”) staff in the May 8-10, 2006 Appraisal Subcommittee (“ASC”) review of Illinois’ Real Estate Appraiser Regulatory Program (“Program”). Based on our review, we find that Illinois’ Program fails to comply with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended (“Title XI”).

The Program has serious weaknesses in that Illinois has failed to: investigate and resolve complaints in a timely manner; process completed temporary practice applications within five business days; and maintain documentation to support the decision-making process for education course approvals. Additionally, the State has not cured its serious, longstanding situation regarding the proper completion of the audit/disciplinary process of certified appraisers who failed to document that their experience conformed to AQB certification criteria.

If these weaknesses are not resolved in a timely manner, the ASC will consider initiating a non-recognition proceeding against the State under § 1118 of Title XI, 12 U.S.C. 3347. Because of our concerns regarding your Program, ASC staff will return in approximately six months to review Illinois’ progress toward correcting these deficiencies.

- **Illinois’ complaint investigation and resolution program does not comply with Title XI and ASC Policy Statement 10 because complaints are not investigated and resolved in a timely manner.**

Illinois’ complaint investigation and resolution program has deteriorated markedly since our previous field review. Complaints are not being investigated and resolved in a timely manner. Given the Program’s loss of resources, we have serious concerns about the possibility of continued deterioration. Under Title XI and ASC Policy Statement 10 E, States need to investigate and resolve complaints in a timely manner, and complaint resolution generally should occur within one year of complaint receipt.

Based on the Division’s complaint log and interviews with Division staff, it appears to the ASC that the lack of sufficient investigative and legal resources could be adversely affecting the complaint investigation and resolution process. During our field review, Division staff and Board members voiced their concern regarding the lack of sufficient investigative and legal resources. Illinois receives approximately 260 complaints per year. At the time of this review, 83

of the 244 open cases (34%) had been open for more than one year. Twenty-one of those cases had been open more than two years. Based on information provided to ASC staff, 19 of the cases that had been referred to the legal unit for prosecution had been dormant in the legal unit for more than one year.

The Division contracts with seven certified appraisers to review appraisal reports involved in complaint cases. The Division reported that completion of these reviews often takes an exceptionally long time.

To address our concerns, the Division needs to:

1. Provide the ASC with a written plan to reduce its backlog of outstanding cases, and a plan for improving the management of the complaint investigation and resolution process so that complaints are resolved in a timely manner consistent with ASC Policy Statement 10 E;
 2. Address in the plan how the Division will ensure that adequate legal and investigative resources are made available to the Program, and to eliminate the delays experienced in completing expert appraisal report reviews; and
 3. Provide a complaint log to the ASC on a quarterly basis.
- **Illinois' temporary practice procedures do not comply with Title XI and ASC Policy Statement 5.**

The Division took more than five business days to process most temporary practice applications. Many applications took as long as 10 to 16 days to process once the Division received a completed application. ASC Policy Statement 5 requires that completed applications be approved (or denied) within five business days. Division staff indicated that the Division and Board do not have sufficient resources to process temporary practice applications in a timely manner.

To address this concern, the Division needs to provide the necessary resources to process temporary practice applications within five business days of receipt, as required by ASC Policy Statement 5

- **Illinois issued certified appraiser credentials to persons failing to document that their experience conformed to Appraiser Qualifications Board ("AQB") certification criteria.**

As discussed at length in our previous field review letters, dating back to July 2002, the Division awarded certified credentials supported by a combination of affidavits, appraisal logs, and letters to support the experience claims of appraisers upgrading from the eliminated licensed classification to a certified classification. In an attempt to process the high volume of licensed appraisers seeking certified credentials, the Division failed to comply with AQB criteria and Title XI.

In our January 2005 field review letter, the ASC required the State to identify the appraisers who had been issued an unsupported certified credential; contact those appraisers to obtain supporting documentation; analyze the additional documentation; and take appropriate action against those appraisers who failed to support their upgrade to certified classifications.

As a result, the Division identified 1,205 appraisers who obtained certified credentials between July 1, 2002, and November 30, 2004. When ASC staff reviewed the files of these appraisers, we discovered that the Division used an incorrect standard to determine whether these certified appraisers complied with AQB criteria. Instead of calculating experience beginning with the date of the appraiser's first appraisal, the Division calculated experience from the date on which an appraiser was issued his or her credential. In our November 2, 2005 follow-up review letter, we directed the State to complete another audit of the 1,205 appraiser application files, to correctly apply AQB criteria regarding experience, and to take appropriate action in each case.

During our current field review, we found that Division staff completed a new audit of the 1,205 certified appraiser application files using the correct criteria. The Springfield staff determined that the files of 218 of the 1,205 certified appraisers lacked appropriate appraisal experience documentation. We reviewed 61 of the remaining 987 files (1,205 less 218) determined by the Springfield staff to contain adequate documentation. The ASC staff found that the 61 files were well documented and contained sufficient information to support the applicant's experience claims. Springfield sent the files relating to the 218 non-complying appraisers to the Chicago office to complete the audit process and to start disciplinary action against appraisers who failed to respond or provide documentation to the Division's request for supporting documentation. The Chicago office sent notices to the 218 appraisers giving the appraisers the opportunity to provide documentation to support the claimed experience. The Division reported to ASC staff that:

1. One hundred fifty-seven appraisers supplied documentation to support the experience claimed on their original certification applications;
2. Forty-six appraisers did not meet the experience requirements at the time their certified credentials were issued, but had since obtained the necessary experience. They were credentialed in error by the State based on a Division employee's incorrect understanding of AQB criteria. The Division issued new certified credentials to these appraisers with corrected effective dates;
3. One appraiser had died; and
4. Fourteen appraisers failed to provide appropriate appraisal experience documentation and were facing enforcement actions. The AQB Compliant field on the National Registry for these appraisers has been changed to "No," and the status of their credentials has been changed to "Inactive."

While on-site in Chicago, we reviewed 76 of the 157 files that the Chicago office determined to have adequate documentation. We found that seven of the 76 files we reviewed failed to contain documentation supporting that the applicants met AQB experience criteria. Six

appraisers lacked enough months of experience, and one file contained experience claims that were not USPAP compliant. ASC staff brought these seven files to the attention of Division staff. The Division staff agreed with our findings and gave the files to legal staff to start enforcement proceedings. This finding was particularly troubling because the Division once again failed to apply AQB criteria correctly. Given this finding, we cannot rely on the results of the Chicago office's review of the 218 files referred from Springfield. To address this concern, the Division needs to:

1. Continue its enforcement efforts against the 21 certified appraisers who failed to provide documentation to support their experience claims;
 2. Within 30 days of receiving our letter, conduct a new audit of the remaining 197 certified appraiser application files. Based on correct application of AQB criteria, identify those appraisers who failed to document the necessary experience to conform to AQB criteria;
 3. Within 45 days of receiving our letter, provide ASC staff a spreadsheet detailing the audit and, if applicable, enforcement status of each of the 218 appraisers. The ASC will update the National Registry regarding the AQB Compliance and credential Status for each appraiser determined not to conform to AQB criteria;
 4. Within 60 days of receiving our letter, begin enforcement actions against any appraiser determined not to conform to AQB criteria;
 5. For those appraisers who did not have the necessary experience at the time the certified credential was issued, but who have obtained the requisite appraisal experience since that time, reissue the certified credentials with corrected effective dates.
- **Illinois did not maintain documentation to support the decision-making process for education course approvals.**

While on-site, we found that the files relating to education courses contained the original application and supporting documentation. Most files, however, failed to contain documentation supporting the Division's decision to renew the course.

Also, we could not determine from the State's documentation whether three State-approved USPAP courses were acceptable under the AQB's 15-hour National USPAP Course requirement for qualifying education or the 7-hour National USPAP Update Course continuing education requirement, or whether the State relied on these courses for that purpose. It was unclear whether any appraisers had taken these courses and relied on them to meet AQB criteria regarding appraiser certification. The courses in question are:

- USPAP, provided by Solec Academy;
- Standards of Professional Practice, provided by The Training Institute, LLC; and
- AEF 150 USPAP, provided by Appraisal Education Foundation.

To address this concern, the Board and/or Division needs to:

1. Determine and document the purpose for which the Board approved each of the three courses;
2. If any of the courses was approved by the Board as either the 15-hour National USPAP Course or 7-hour National USPAP Update Course, determine whether the courses and providers were approved by the AQB as the National courses;
3. Determine whether any certified credentials were either issued or renewed relying on these courses to meet the 15-hour National USPAP Course or the 7-hour National USPAP Update requirements;
4. Within 30 days of the date of this letter, notify ASC staff regarding items 1-3 above;
5. Maintain copies of all material supporting Board decisions to approve or disapprove educational courses and any subsequent renewals; and
6. Create written procedures to ensure that the Chicago and Springfield offices have clearly delineated responsibilities and that they work together to ensure that there is an efficient and well documented process for approving educational course offerings.

2008 AQB Criteria

Illinois plans to implement the 2008 AQB criteria changes using the firm date scenario, effective January 1, 2008. Illinois attempted to amend its statute during the 2006 legislative session to adopt the 2008 AQB criteria. The bill failed. We understand that Division legal staff is reviewing the possibility of implementing the criteria changes via regulation.

Adoption and implementation of the 2008 AQB criteria changes on a timely basis is very important. Please provide ASC staff with regular updates regarding the status of the Division's legislative and/or regulatory efforts to adopt the 2008 criteria.

In conclusion, Illinois' Program continues to have serious weaknesses. Illinois must take prompt action to remedy the deficiencies identified in this letter. ASC staff will return in approximately six months to evaluate the State's progress.

Unless otherwise noted above, please respond to our findings and recommendations within 60 days from the date of this letter. Until the expiration of that time 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: Dan Bluthardt, Director Division of Professional Regulation
Ronald Hardgrove, Director Real Estate
Mike Brown, Director of Real Estate Appraisal Administration
Young Brockhouse, Licensing and Education Manager