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Appraisal Subcommittee

Federal Financial Institutions Examination Council

October 18, 2006

Daniel E. Bluthardt, Director
Division of Professional Regulation
Department of Financial and Professional Regulation
100 W Randolph Suite 9-300
Chicago, IL 60601

Dear Mr. Bluthardt:

Thank you for your July 26, August 8, August 10, and August 25, 2006 letters describing the Illinois Real Estate Appraiser Board (“Board”) and the Division of Professional Regulation’s (“Division”) actions regarding the concerns expressed in our June 26, 2006 field review letter. We will be returning to Illinois to perform a follow-up review of your appraiser regulatory program (“Program”) on November 6 of this year.

- **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.**

In our June 26th field review letter, we noted that Illinois’ complaint investigation and resolution program deteriorated markedly since our previous field review. Complaints were not being investigated and resolved in a timely manner. Given the Program’s loss of resources, we noted our 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.

In your August 24th response, you stated that the Division implemented several steps in its plan to reduce the backlog of outstanding cases and ensure that adequate legal and investigative resources are made available to the complaint investigation and resolution program. Some of those steps are: hiring two additional full-time investigators (with plans to hire a third new investigator soon); temporarily assigning the Deputy Director of Enforcement Administration to the role of Chief of Real Estate Investigations; creating a permanent Chief of Real Estate Investigations position (which will be filled shortly); and increasing legal resources available to the program. You also described several specific steps that the Division is taking to ensure that Program employees are appropriately trained.

You also reported that a substantial number of the complaints outstanding for more than one year resulted from an administrative oversight to properly reflect the accurate status of these cases. You reported that these cases had been resolved and closed, but that the records had not been updated to reflect this status. During our follow-up review, we will review a sampling of these cases.

We hope that the changes to your complaint investigation and resolution process are sufficient to reduce the number of outstanding and aged complaint cases. We will focus on this

area when we return for our follow-up review later this year and at our next full field review in 2007. If adequate progress in reducing the number of outstanding and aged complaint cases is not evident we review the Program in 2007, ASC staff will recommend that the ASC initiate a non-recognition proceeding under § 1118(b) of Title XI, 12 U.S.C. 3347(b) for Illinois' longstanding failure to comply with that Title.

Finally, please continue to provide complaint logs to the ASC on a quarterly basis.

- **Illinois' temporary practice procedures do not comply with Title XI and ASC Policy Statement 5.**

As noted in our June 26th letter, 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 of receipt of a completed application. Division staff indicated that the Division and Board did not have sufficient resources to process temporary practice applications in a timely manner. The ASC directed the Division to provide the necessary resources to process temporary practice applications within five business days of receipt, as required by ASC Policy Statement 5.

In your August 25th response, you noted that the Division is taking several steps to ensure compliance with ASC Policy Statement 5. Among other things, the Division has placed a priority on processing temporary practice applications, established and implemented written policies and procedures for processing temporary practice applications, hired and assigned additional staff resources to process applications, and instituted monthly reviews to ensure that complete applications are being processed within five days of receipt.

We appreciate your efforts to comply with Title XI and Policy Statement 5. We will review the effectiveness of these changes when we perform our next field reviews of your Program.

- **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 June 26th letter, the ASC directed the Division 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 that 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.

Your August 10th response letter stated that the Division had completed a new audit of the 218 certified appraiser application files. The results of that audit follow:

1. 199 certified appraisers were AQB-compliant;
2. 16 certified appraisers were found to be non-AQB compliant. Five enforcement actions had been initiated, ten enforcement actions had been completed and the appraisers had been placed on Inactive status on the National Registry, and one enforcement action was in the process of being settled;
3. Three appraisers failed to have the necessary experience at the time of renewal, but had obtained that experience since that time. The Division renewed their credentials with corrected issuance dates; and
4. One non-compliant appraiser was deceased. This file was not audited and not counted in the 218 total.

We will review the audit results during our follow-up visit in November, to ensure that the audit was performed accurately and that its results are reliable.

- **Illinois did not maintain documentation to support the decision-making process for education course approvals.**

In our June 26th field review letter, the ASC directed the Division to review several education course approvals because sufficient supporting documentation did not exist in their files. The Division was directed 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.

In a July 26th letter faxed to us, you informed us that two of the three questionable courses presented no problems. One course was found to be an appropriate National USPAP Course taught by AQB Certified USPAP Instructors. Another provider did not offer the subject USPAP Course due to the failure to hire an AQB Certified USPAP Instructor.

The last course, a 15-hour USPAP Course, however, was found not to be compliant with the AQB certification criteria as amended and effective on January 1, 2003. In your August 26th letter, you informed us that four appraisers relied on this course and were issued certifications. The Division contacted these appraisers and informed them that they must show proof within 60 days that they taken an acceptable 15-hour National USPAP Course. If they fail to do so, the Division will instruct the ASC to change their status on the National Registry to Inactive. Fifteen other students have certification applications pending that rely on the course and have been notified that their applications will not be processed until they provide proof of successfully completing an acceptable 15-hour National USPAP Course. Please advise us regarding the status of these 19 persons as soon as possible after the 60 day deadline.

Finally, we are pleased that the Division created written policies and procedures for processing education course evaluation and approval. We anticipate that these policies and procedures will help to ensure that the Chicago and Springfield offices have clearly delineated responsibilities so that they can coordinate their responsibilities regarding the efficient and fully documented processing of educational course offerings. We will be reviewing your progress in this area during our upcoming field review.

- **2008 AQB Criteria**

As noted in our June 26th letter, Illinois' attempt to amend its statute during the 2006 legislative session to adopt the 2008 AQB criteria failed. In your August 25th letter, you noted that the bill did not fail; it remained in committee to allow the profession and other interested parties to negotiate its language. The Division expects that the bill will be addressed in the upcoming fall 2006 legislative session.

While you expect the bill to pass to legislature, the Division is going forward to adopt regulatory changes implementing the 2008 AQB criteria. Draft rules have been presented to the Real Estate Appraisal Board for comment. Once those comments are received and incorporated into the draft regulations, the Division expects to forward them to the Illinois Joint Committee on Administrative Rules. Please update us regarding the status of these rule proposals.

We appreciate your efforts to implement the 2008 AQB criteria. Please provide ASC staff with regular updates regarding the status of the Division's legislative and regulatory efforts to adopt the 2008 criteria.

This letter and any other correspondence between you and the ASC regarding this field review are now publicly available on our Web site.

Please contact us if you have any questions.

Sincerely,

Ben Henson
Executive Director

cc: Dean Martinez, Secretary
Mike Brown, Director of Real Estate Appraisal Administration