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Appraisal Subcommittee

Federal Financial Institutions Examination Council

June 26, 2006

Mr. R. Wayne Pugh, Chairman
Louisiana Real Estate Appraisers Board
P.O. Box 14785
Baton Rouge, LA 70898-4785

Dear Mr. Pugh:

Thank you for the cooperation and assistance of the Louisiana Real Estate Appraisers Board (“Board”) and the Louisiana Real Estate Commission (“Commission”) in the April 20-24, 2006 Appraisal Subcommittee (“ASC”) review of Louisiana’s real estate appraiser regulatory program (“Program”). Based on our review, we find that Louisiana’s 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 the following areas: complaint investigation and resolution; the lack of a reliable means of validating continuing education claims; and issuing appraiser credentials supported by outdated examination results. 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. Based on our review, it does not appear that the Program’s weaknesses were attributable to the effects of Hurricane Katrina. ASC staff will monitor your corrective actions closely and are available to assist you.

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

During our previous field review in September 2004, three Commission investigators and the Investigation Division Director were involved in the appraiser complaint investigation process. They also performed investigations relating to Louisiana’s real estate and escrow programs. During the last year and in preparation for her retirement, the Investigation Division Director stopped performing investigations and her supervisory and complaint intake duties were assigned to one of the Commission investigators.

Based on the Commission’s complaint log and interviews with Commission staff, it appears that the Program now lacks sufficient investigative resources to administer the complaint investigation and resolution process effectively. At the time of this review, 23 of the 48 open cases had been in process for more than one year. This is a significant increase since our September 2004 field review when only two of 15 cases were over one year old. In addition, many open files showed long periods of inaction.

ASC Policy Statement 10 E. requires State appraiser regulatory agencies to process complaints of appraiser misconduct or wrongdoing on a timely basis. Absent special documented circumstances, final State agency administrative decisions regarding complaints should occur

within one year of the complaint filing date. Only two of the 23 cases over one year old involved such “special documented circumstances.”

During ASC staff’s exit interview and meetings with the Board, we expressed our concerns about the lack of resources and increase in aged complaints. While the Board indicated that it shared our concerns, the Commissioner stated several times that the Commission could do nothing to resolve the concern and could not hire more investigators. The significant increase in “aged” complaint cases, coupled with the Commissioner’s indication that the Commission can do nothing to address this issue, causes considerable concern. To comply with Title XI, a State must adequately supervise its appraisers. Prompt complaint investigation and resolution is a critical element of adequate supervision.

The Commission and Board need to take the necessary actions to comply with Title XI and ASC Policy Statement 10 E. The Commission and Board need to:

1. Develop and implement an action plan that will reduce the backlog of outstanding cases and manage ongoing complaint investigation and resolution in a timely manner;
 2. Provide written notification to the ASC regarding the plan to be implemented; and
 3. Provide a complaint log to the ASC on a quarterly basis.
- **Louisiana does not have a reliable means of validating continuing education claims of appraisers applying to renew certified credentials.**

Louisiana has a two-year continuing education cycle that runs concurrently with its two-year appraiser credential cycle. Approximately one half of Louisiana’s certified appraiser credentials expire on December 31st each year. In the past, appraisers and course providers provided continuing education documentation throughout the year. At renewal, the Commission provided each appraiser a renewal form listing the courses the appraiser had on file and what was needed to meet his or her continuing education renewal requirement. Each renewing appraiser was required to provide all continuing education documentation prior to the issuance of a renewed credential.

In 2004, the Commission converted to a new electronic tracking system. The new system was designed to track data provided from education providers. The renewing appraiser would file an affidavit for credential renewal, and the automated system would validate the continuing education courses taken by each renewing appraiser. Based on this automated validation, the Board/Commission would determine whether to renew the appraiser’s credential. It is our understanding that the tracking system failed to work properly. The Commission, nevertheless, proceeded with the December 31, 2004, and December 31, 2005 renewal cycles and issued renewed certifications based on unsupported affidavits.

Commission staff indicated to ASC staff that the Commission’s resources have been stretched by the increased renewal workload from adding the trainee classification in mid-2003. Louisiana has approximately 800 trainees with renewal cycles concurrent with the certified appraiser renewal cycles. While the renewal workload appears to have almost doubled (adding 800 trainees to approximately 1,000 certified appraisers), no additional resources were provided.

Finally, to complicate matters further, appraiser affidavits from both the 2004 and 2005 renewal cycles were not always filed in the appropriate appraiser files.

During ASC staff's exit interview and meetings with the Board, we expressed our concerns about the lack of resources and increase in workload. While the Board indicated that it shared our concerns, the Commissioner again stated that the Commission could do nothing to resolve the concern. To comply with Title XI, a State must issue and renew appraiser credentials in compliance with ASC Policy Statements and Appraiser Qualifications Board criteria.

To address these concerns, the Commission and Board need to take the following steps:

1. Within 30 days of receiving this letter, prepare a listing of all certified appraisers whose credentials were renewed during the December 2004 and 2005 renewal cycles;
 2. Within 90 days of receiving this letter, audit the continuing education claims of at least ten percent of the appraisers identified in step 1;
 3. Identify appraisers who failed to conform to AQB criteria and take appropriate disciplinary actions against those appraisers. For certified appraisers who do not currently meet AQB criteria, immediately begin the necessary steps to downgrade the appraisers to non-certified classifications. Alternatively, the Board could recall existing certifications and over stamp them with wording similar to "Not eligible to appraise federally related transactions." In this case, the appraiser's status on the National Registry would be changed from "Active" to "Inactive;"
 4. For appraisers renewing on December 31, 2005, please refer to Executive Director Ben Henson's September 22, 2005 letter regarding the ramifications of Hurricane Katrina; and
 5. Provide the ASC a written explanation regarding how Louisiana will conform to ASC Policy Statement 10 F. regarding validating continuing education claims.
- **Louisiana issued certified appraiser credentials supported by examination results that were more than two years old, which is inconsistent with AQB criteria.**

In April 2000, the AQB issued an Interpretation to its criteria specifying that examination results were not valid for more than two years. This period is measured from examination date to the credential's issuance date. This interpretation became effective July 1, 2000. Both the AQB and the ASC sent letters to all States in 2000 to make them aware of the Interpretation and the need for States to conform to the interpretation.

Louisiana amended its appraiser regulatory statute to conform to the AQB Interpretation. Because the Louisiana State Legislature only meets every two years, this amendment became effective August 1, 2001. The Board and Commission failed to comply with this change in State law.

While on-site, ASC staff reviewed the electronic records of 230 of the 340 appraisers certified since August 1, 2001, to estimate the number of appraisers possibly affected by the State's failure to conform to the AQB Interpretation and State law. We identified 21 appraisers who apparently were issued certificates based on outdated exams. The actual number of affected appraisers might differ once the Commission completes a full review of its application records.

To complicate this matter, several of the reviewed files lacked documentation relating to examination results.

To address this concern, the Commission and Board need to take the following steps:

1. Review its records regarding all certifications, other than reciprocal certifications, issued since August 1, 2001;
2. Within 30 days of receipt of this letter, determine whether the examination used to support each certified credential was passed more than 24 months prior to issuance of the credential;
3. Prepare a spreadsheet or other document that lists the name and credential number of each appraiser issued a certification since August 1, 2001, the date the appraiser's credential was issued, and the date the appraiser passed the examination;
4. Require all certified appraisers identified in step two to successfully complete the appropriate examination within 90 days from the Board's receipt of this letter;
5. Take the necessary steps to downgrade to the trainee level any certified appraiser who fails to take or pass the appropriate examination within the 90-day period. Alternatively, the Board could recall existing certifications and over stamp them with wording similar to "Not eligible to appraise federally related transactions." In this case, the appraiser's status on the National Registry would be changed from "Active" to "Inactive;" and
6. Refrain from issuing appraiser credentials that rely on outdated examination results.

Given the seriousness of Louisiana's failures to comply with Title XI, ASC staff will return for a follow-up review in approximately 6-9 months. Additionally, the ASC will schedule annual field reviews until such time as the Louisiana brings its Program into substantial compliance with Title XI.

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.

If you have any questions, please contact us.

Sincerely,

Virginia M. Gibbs
Chairman

cc: Julius C. Willie, Executive Director