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# Appraisal Subcommittee

*Federal Financial Institutions Examination Council*

April 17, 2006

Ms. Elizabeth Luce, Director  
Department of Licensing  
P.O. Box 9015  
Olympia, WA 98507-9015

Dear Ms. Luce:

Thank you for the cooperation and assistance of the Department of Licensing (“Department”) and the Washington Real Estate Appraisers Commission (“Commission”) in the February 16-17, 2006 Appraisal Subcommittee (“ASC”) review of Washington’s real estate appraiser regulatory program (“Program”). Based on our review, Washington needs to address three concerns to bring the Program into substantial compliance with Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended (“Title XI”), as discussed below.

- **The Department began accepting continuing education affidavits in July 2005, and failed to implement a reliable method of validation as required by ASC Policy Statement 10 F.**

In July 2005, Washington began offering appraisers the opportunity to renew their credentials electronically based on sworn affirmations that the appraisers had met the State’s continuing education requirements. ASC Policy Statement 10 F requires States to have appropriate validation procedures and, using those procedures, to audit continuing education-related affidavits of certified appraisers within 60 days from the date the renewed credential is issued. At the time of our field review (February 2006), Washington had failed to perform audits relating to renewals issued from July 2005, through late December 2005.

While ASC staff were on-site, the Department agreed to conduct the necessary audits of appraisers granted renewals based on continuing education affidavits. Department staff told ASC staff that a random audit of 10% to 15% of all renewals was planned to begin by the end of February 2006. On March 2, 2006, Department staff informed ASC staff that it had identified 199 appraisers whose credentials were renewed based on affidavits. Of these appraisers, 40 were licensed, 113 were certified residential, and 46 were certified general. The Department stated that it would send audit letters to 17 of the 159 certified appraisers on March 2<sup>nd</sup>.

To remedy this deficiency, the Department needs to:

1. Within seven days of receipt of this letter, send a listing of the 199 identified appraisers to the ASC, and indicate which of these appraisers are being audited;
2. Within 30 days of receipt of this letter, complete the audits of the continuing education claims of at least ten percent of the identified appraisers and determine whether any appraiser failed to conform to the Appraiser Qualifications Board (“AQB”) continuing education criteria at the time of renewal;

3. Within 60 days of receipt of this letter, initiate appropriate disciplinary action against any appraiser identified in step 2. For certified appraisers who currently do not meet AQB criteria, immediately place those appraisers on Inactive status for the National Registry until such time as the appraiser conforms to AQB criteria;
  4. In determining appropriate disciplinary action, determine whether the appraiser failed to conform to AQB criteria as a result of a good faith effort, or whether the appraiser intentionally misrepresented his or her continuing education status. Appraisers who knowingly falsify a government document (*e.g.*, appraiser credential renewal application) likely have committed a fraudulent act. Such an action calls into question that appraiser's ethical standards. Because ethical actions are critical to compliant appraisal practice, disciplinary actions should reflect the seriousness of the action;
  5. Within 90 days of receipt of this letter, provide a listing to the ASC of those appraisers who failed the audit and what actions are being taken regarding those appraisers; and
  6. Conform all future certified credential renewal practices to ASC Policy Statement 10 F.
- **The Department allowed continuing education credit for attending more than one Commission meeting per renewal cycle.**

Washington currently allows appraisers to claim three hours of continuing education credit for attending any and all Commission meetings. In August 2004, the AQB determined that a State could award continuing education credit to appraisers who attend a State Board/Commission meeting under the following circumstances:

- The State Board/Commission meeting must be at least two-hours long (this is consistent with the requirement that continuing education courses must be a minimum of two-hours in length);
- A credentialed appraiser may not receive continuing education credit for attending a State Commission meeting more than once per continuing education cycle (this is consistent with the requirement that continuing education is designed to maintain and advance an appraiser's skills, knowledge and competency, and should not be repetitive or redundant); and
- The State Board/Commission must verify the identification of any credentialed appraiser wishing to receive credit for attending a State Commission meeting and must have adequate procedures in place to ensure the credentialed appraiser attends the meeting for the required period of time.

At the time of our field review, the Department had proposed rules to modify the acceptability of attending Commission meetings as continuing education. The proposed rules, however, did not address the restriction of one Board/Commission meeting per continuing education cycle.

To address this concern, the Department needs to amend its regulations and practice to conform to AQB criteria and ensure that all certified credentials renewed in the future conform to these provisions. The Commission and Department should be aware that the AQB plans to issue an exposure draft regarding this issue in 2006. We encourage the Commission and Department to comment on the proposal, when issued.

- **Washington failed to retain adequate documentation to substantiate that appraiser credentials were issued in compliance with AQB criteria.**

Our review of appraiser application files revealed that qualifying education and examination results were well documented. Most of those files, however, failed to contain supporting documentation for qualifying experience.

Washington requires all applicants to submit a complete experience log. The Department, however, destroys experience logs six months after taking action on an application. ASC staff reviewed the application files for a number of applications approved within the six-month period preceding our field review. Each file contained an appropriately documented experience log.

The destruction of the experience logs, however, creates two significant concerns. First, the records are destroyed without the ASC having an opportunity to review them. This prevents our ability to review the necessary records to determine whether Washington complied with Title XI when it issued the credentials. Second, the Department does not maintain sufficient documentation to defend against potential unlawful discrimination, preferential treatment, or other accusations.

To address this concern, the Department needs to maintain experience logs and any other documentation supporting experience claims until the ASC has conducted its next scheduled on-site field review. The Department also should take steps to ensure that its records retention program complies with applicable State law.

Please respond to our finding and recommendation within 60 days from the date of this letter. Until the expiration of that time 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.

Please contact us if you have further questions.

Sincerely,

Virginia M. Gibbs  
Acting Chairman

cc: Brent Palmer, Chairman  
Real Estate Appraiser Commission

Lee Mallott, Administrator  
Department of Licensing

Ralph Birkedahl, Program Manager  
Department of Licensing, Appraisal Section