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# Appraisal Subcommittee

*Federal Financial Institutions Examination Council*

March 28, 2007

**Subject: Proposed Amendments to ASC  
Policy Statement 10**

Dear State Appraiser Regulatory Official:

Enclosed for your review and comment are proposed revisions to *ASC Policy Statement 10: Enforcement*. These proposals are intended to address several of the Appraisal Subcommittee's ("ASC") most significant findings from recent State appraiser regulatory agency field reviews. The ASC proposes to amend Policy Statement 10 by adding new Paragraph G, *Validation of Experience Documentation for AQB Criteria Conformance and USPAP Compliance*.

Please forward your written comments to us by June 28, 2007. You may submit your comments to us via fax at 202-293-6251, Internet e-mail to me at [Ben@asc.gov](mailto:Ben@asc.gov), or U.S. Mail to our address below.

## **Background**

Title XI requires States to determine whether each applicant for certification conforms to the Appraiser Qualifications Board's ("AQB") minimum experience requirements for certification. During the last few years, the ASC determined that several States failed to:

- Validate applicants' experience claims by limiting their review to experience logs only;
- Evaluate applicants' work products to determine USPAP compliance; and/or
- Calculate properly applicants' experience hours and experience time periods.

Proposed Policy Statement 10 G provides guidance to States regarding how State agencies can ensure that applicants for certification have the necessary qualifying experience to meet the requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended ("Title XI"), as implemented by AQB criteria.

## ***Proper use of experience logs***

Most States require applicants for licensure or certification to submit experience logs that list, with some specificity, each of the appraisals claimed for experience credit. Some States, however, are not using experience logs properly. As stated in new Paragraph G, reviewing experience logs is only the first step in evaluating an applicant's experience claims. States, in some reliable manner, also must validate that the experience listed on the log actually exists. Therefore, it is necessary that each entry on an experience log contains sufficient information to enable a State agency to validate the existence of the appraisal and to determine whether the applicant is capable of performing USPAP-compliant work.

### ***Determinations of USPAP Compliance***

Generally, for appraisal experience to be acceptable under AQB criteria, that experience must be USPAP-compliant. Under the AQB's initial criteria of March 27, 1991, real estate appraisals, other than mass appraisals, did not have to conform to USPAP to be acceptable experience. In February 1995, the AQB adopted an interpretation to the criteria requiring experience earned on or after January 1, 1991, to comply with USPAP. As a result, appraiser credentials issued prior to February 1995, could rely on experience (other than mass appraisal experience) that was not USPAP-compliant. Beginning in February 1995, appraiser credentials had to be supported by USPAP-compliant experience, if that experience was earned on or after January 1, 1991.

The AQB treated mass appraisal experience differently. The AQB's March 27, 1991 criteria stated that, for *ad valorem* tax appraisal experience to be acceptable experience under the criteria, *ad valorem* tax appraisers had to demonstrate that they: (1) used techniques to value properties similar to those used by real estate appraisers, and (2) effectively used the appraisal process. The criteria also required that all mass appraisals be performed in accordance with USPAP Standard 6. As a result, for appraiser credentials issued on or after March 27, 1991, if an applicant relied on mass appraisal experience, that experience had to be USPAP-compliant, regardless of when it was earned. In June 1997, the AQB adopted an interpretation that eased the restrictions regarding mass appraisal experience. The new interpretation provided that mass appraisal experience earned on or after January 1, 1991, must be USPAP Standard 6 compliant to be acceptable. This interpretation applied to credentials issued on or after the June 1997 effective date.

States, under Title XI and AQB certification criteria, have a duty to determine, by some reasonable method, whether applicants are capable of performing appraisals that are USPAP-compliant. To make this substantive determination, States need to exercise due diligence in determining whether submitted experience is USPAP-compliant.

A State may choose how to determine whether applicants' work products comply with USPAP. The ASC will analyze the method employed by a State on a case-by-case basis to determine whether that approach effectively enables the State to determine whether each applicant for certification is qualified on the basis of USPAP-compliant experience.

### ***Determinations of Experience Hours and Time Periods***

Some States have failed to allocate experience hours on a reasonable basis. For example, some States have awarded experience hours to applicants without considering the complexity or nature of the work performed. An extreme example would be assigning all residential appraisals the same number of experience hours and all commercial appraisals the same number of experience hours. More specificity is necessary. Appraising a large multi-million dollar residential estate is more complex than appraising a small tract home. Likewise, appraising a small commercial property requires less work than appraising a multistory commercial complex.

Some States have failed to measure properly the time period over which experience must be earned. For example, some States have counted the experience period from the date the individual obtained a trainee credential. Some States have used the applicant's credential application date as the ending date. Use of these approaches leads to unreliable results. In a State

in which a person must be registered with the State (*e.g.*, as a trainee) before gaining creditable experience, the person might not perform any appraisal work for weeks or months after obtaining the trainee credential. In addition, an applicant's last appraisal listed on an experience log might have occurred a significant time before the application date. As a result of these and other inappropriate evaluations of applicant experience, some applicants have been awarded appraiser credentials when a review of their experience documentation using appropriate benchmarks showed that the experience failed to comply with the AQB's minimum experience time periods.

With respect to the allocation issue, States need to make reasonable determinations when awarding experience credit for differing types of appraisal assignments. Each State is free to arrive at what it believes is a reasonable basis to allocate experience hours to appraisal work. The ASC will analyze each State's allocation method to determine whether it is reasonable and appropriate.

When measuring the beginning and ending of the 24 or 30-month experience period, States need to review each appraiser's experience log (or other documentation) and note the dates of the first and last acceptable appraisal activities performed by the applicant. Then, the State needs to calculate the time period spanned between those appraisal activities. The time period must cover the required 24 or 36 months to conform to AQB experience criteria.

***Application to licensed level real estate appraisers***

States may choose to adopt the AQB's minimum experience criteria for licensure. If so, applicants for licensure currently are required by State law to have at least 2,000 hours of experience gained over at least a 24-month period. To reduce confusion and to avoid administrative inefficiencies, the ASC recommends that States treat experience claims of applicants for licensure in the same manner as those submitted by applicants for certification.

Please contact us if you have any questions.

Sincerely,

Ben Henson  
Executive Director

Attachment

## **G. Validation of Experience Documentation for AQB Criteria Conformance and USPAP Compliance**

The following discussion provides guidance regarding how State agencies can ensure that applicants for certification and licensure have the necessary experience to perform appraisals in connection with federally related transactions and real estate related financial transactions that require the services of State licensed or certified real estate appraisers under Federal law.

- 1. Validation of Qualifying Experience and Proper Use of Experience Logs** – Most States require applicants for licensure or certification to submit experience logs that list, with some specificity, each of the appraisals claimed for experience credit. Reviewing experience logs is an initial step, not the complete process, in evaluating an applicant’s experience claims. States, in some reliable manner, must validate that the experience listed on the log actually exists. Therefore, it is necessary that each entry on an experience log contains sufficient information to enable a State agency to validate the existence of the appraisal and to perform its duty to determine whether the applicant is capable of performing USPAP-compliant work.
- 2. Determinations of USPAP Compliance** – Generally, for appraisal experience to be acceptable under AQB criteria, that experience must be USPAP-compliant. Appraisals, other than mass appraisals and tax assessment/*ad valorem* appraisals, must comply with USPAP Standards 1 and 2. Mass appraisals and tax assessment/*ad valorem* appraisals must comply with USPAP Standard 6. Under Title XI and the AQB’s certification criteria, States must determine, by some reasonable method, whether applicants are capable of performing appraisals that are USPAP-compliant.

The only acceptable method of making this determination is by reviewing appraisal work product. For most States, the most reasonable approach to making this determination would be to review specific work products and/or to require the applicant to perform appraisals of specified properties and prepare corresponding appraisal reports (*e.g.*, demonstration reports). It is important to note that the State agency must select the work products to be reviewed. Allowing applicants to make the selection would significantly reduce the reliability of any validation approach. States must exercise due diligence in determining whether submitted experience is USPAP-compliant. States are free to tailor their methods of making this determination to fit their unique needs. The ASC will review each State’s method on a case-by-case basis.

- 3. Determinations of Experience Hours and Time Periods** – When awarding work experience credit toward certification, States need to make reasonable determinations when awarding experience credit for appraisal assignments of differing types and complexity.

When measuring the beginning and ending of the 24 or 30-month experience period under the AQB criteria, States need to review each appraiser’s experience log (or other documentation) and note the dates of the first and last acceptable appraisal activities performed by the applicant. Then, the State needs to calculate the time period spanned between those appraisal activities. The time period must cover the required 24 or 36 months to conform to AQB experience criteria.

5. **Applicability to Licensed Appraisers** – To reduce confusion and to reduce administrative inefficiencies, the ASC recommends that States treat experience claims of applicants for licensure in the same manner as those submitted by applicants for certification.
6. **Supporting Documentation** – To ensure that the ASC can determine whether the State is appropriately validating experience documentation for AQB criteria conformance and USPAP compliance, a State needs to maintain adequate documentation to support its validation method(s) and its determinations regarding the acceptability of experience claims.